





## Germany slows fall in Europe's new car sales

By Kevin Dine,  
Motor Industry Correspondent

NEW car sales in west Europe were boosted last month by an increase of around 5 per cent in registrations in Germany, the biggest single market in Europe.

The rise in Germany helped to compensate for falls in many of the small and medium-sized European markets and left sales in October virtually unchanged from the same month a year ago at 1,068m, an increase of 0.1 per cent.

According to industry estimates new car sales in west Europe in the first 10 months of the year totalled 11,582m, a decline of 1.4 per cent from the corresponding period a year ago.

New car registrations in Germany in the last couple of months have not yet begun to reflect the steep decline in new orders experienced by car makers since the summer.

The most recent industry forecasts suggest that new car sales in Germany could fall by around 11 per cent in 1993.

In the first 10 months of this year German new car sales are

estimated to have fallen by 8 per cent to 3.38m from the record level reached in 1991 in the wake of reunification.

Current forecasts suggest that west European new car sales could fall by around 3.5 per cent next year, chiefly under the impact of falling demand in Germany and in Italy. The weakening trend is already clear in Italy where sales in October fell by 3.9 per cent year-on-year, the third consecutive monthly fall. In the first 10 months of the year new car sales in Italy were still 3.3 per cent higher than a year ago.

Sales have also been weakening in Spain, where new car demand in October fell by 9.1 per cent.

In the first 10 months new car sales in Spain were still 10.9 per cent higher than a year ago. Sales in France in October were unchanged.

In the UK, new car sales rose year-on-year by 9.3 per cent last month, but almost all of the boost came from the fleet sector. In the first 10 months sales were still 1.9 per cent below last year's already very depressed level.

## Ireland turns to thoughts of Spring

Tim Coone reports on why the Labour party leader is riding high in the opinion polls

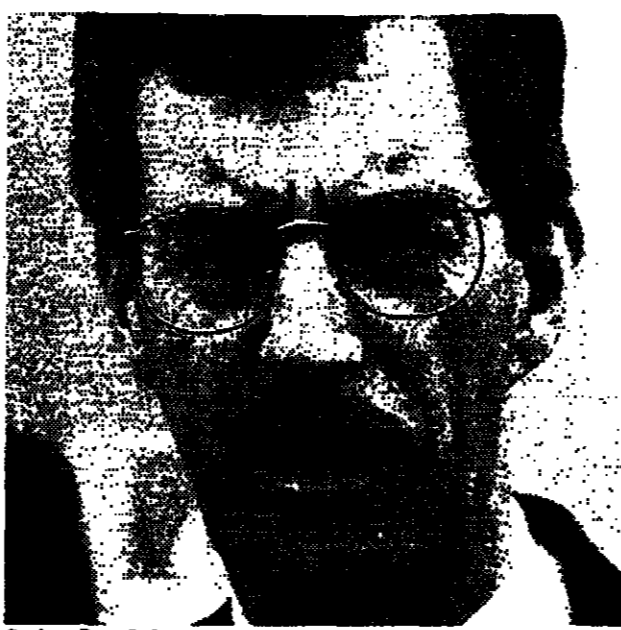
ALAN, bespectacled figure, with a neatly clipped moustache, a firm handshake, and an air of gravitas, swept through north Dublin's street markets and shopping malls this week... with a promise of change.

Mr Dick Spring, the leader of the Irish Labour party, has serious ambitions of becoming the country's next prime minister. Riding high in the opinion polls, he has signalled to other party leaders that any discussions on coalition government after next week's general election will have to include the possibility of shared leadership if Labour is to join in.

On current poll projections, it is likely that neither Prime Minister Albert Reynolds' Fianna Fail nor Fine Gael, the two main parties, will win enough seats to form a government in the 166-seat Dail (parliament) on its own, nor with any of the smaller parties that have indicated a willingness to join a coalition.

Barring a last-minute blunder, it is probable that Labour will hold the balance of power with 20-25 seats, against 70-75 for Fianna Fail and maybe 50-55 for Fine Gael.

Polling only 6.4 per cent and 9.5 per cent in the 1987 and 1989 parliamentary elections



Spring: Don Quixote tilting at windmills of graft in high places

respectively, Labour had its big breakthrough in the 1990 presidential election, when Mrs Mary Robinson, the Labour-backed candidate, won with 53 per cent of the vote.

Although her victory is accepted as a one-off result, the positive image she has projected as president and her well-known liberal stance on women's and civil rights are

generally acknowledged as factors behind Labour's current good standing at 19 per cent in the polls.

Mr Spring's own high parliamentary profile, as a latter-day Don Quixote tilting at the windmills of corruption in high places, and the champion of the unemployed, has given him a personal popularity rating of almost 70 per cent, more than

30 points ahead any other party leader, and at least 42 points ahead of Mr Reynolds.

Mr Spring says: "I now have the confidence to say that Labour will make the most important breakthrough it has ever made, which will break the mould of traditional concepts of Irish politics which are still rooted in the civil war [of the 1920s]."

One of the key battlegrounds will be Dublin, where Labour has almost caught up with Fianna Fail in the opinion polls, and where it hopes to pick up seven new seats.

The Dublin Central constituency, a poor working-class district, is a key marginal where Mr Bertie Ahern, the finance minister, is defending his Dail seat. It is a Fianna Fail heartland, but boundary changes since the last election have given Labour a strong chance of winning one of two seats held by Fianna Fail.

Mr Spring's name is not exactly a household one. "Who's that?" asked a group of grumpy-faced children who beg for money from the photographers who swarm around Mr Spring. He is also less than universally popular. "He only comes down here when he wants our votes!" a man shouts out. However, his reception is usually overwhelmingly

welcoming. People approach him to wish him well.

"I'll take two-to-one-on for 30 seats," grins an elderly man coming out of a betting shop. Another elderly man who complains of the health service says: "I usually vote Fine Gael but I think I'll give yer man a try this time."

A pensioner and life-long Fianna Fail supporter says she will be voting Labour: "It's the unemployment, the jobs. This lot haven't done anything, so it's time to give the others a chance. They can't do any worse."

Mr Spring presses on with his message that his party will bring probity to government, tackle unemployment and improve housing, health and the schools.

At a primary school housed in 20-year-old prefabricated buildings on the grounds of the Education Ministry, he surveys the peeling paintwork, missing gutterwork and rotting windowframes.

He promises the teachers and parents who have gathered to meet him that a government in which he participated would rebuild the school. Presenting him proudly to her class, a teacher asks: "Does anyone know who this man is?" After a moment's silence, one small child ventures "John Major?"

## Romanian government approved

By Virginia Marsh in Bucharest

THE Romanian parliament yesterday accepted a new cabinet led by Prime Minister Nicolae Vacaroiu and committed to gentler reforms.

The cabinet is dominated by the Democratic National Salvation Front (DNSF) which won 38 per cent of the vote in September's elections. It includes several junior ministers who served in the communist era and favours a slower reform.

However, the cabinet is weighted towards the party's younger wing and brings many newcomers to the government. It also includes some reform-minded independents, such as Mr Misu Negritoiu, who will be deputy prime minister in charge of economic reforms.

Romanian nationalist parties which captured 12 per cent of the vote did not, as feared by many, win cabinet posts.

The democratic convention, a coalition of anti-communist parties which came second in the polls, voted against the government because it said it failed to present concrete economic policies.

Mr Vacaroiu said he would not present a long-term strategy for four months.

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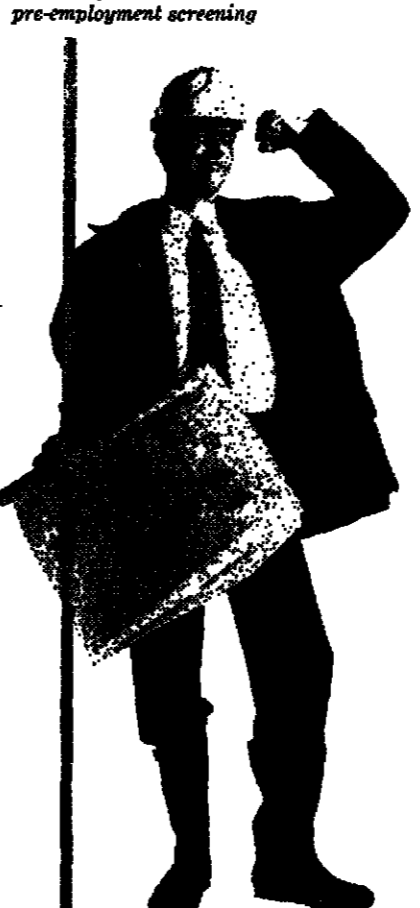
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### WEST EUROPEAN NEW CAR REGISTRATIONS January-October 1992

	Volume (Units)	Volume Change (%)	Share (%) Jan-Oct 92	Share (%) Jan-Oct 91
<b>TOTAL MARKET</b>	11,563,000	-1.4	100.0	100.0
<b>MANUFACTURERS:</b>				
Volkswagen (incl. Audi, SEAT, Skoda)	2,014,000	+5.9	17.4	16.2
General Motors (Opel/Vauxhall, Isuzu & Saab)	1,433,000	+0.3	12.4	12.2
Opel/Vauxhall	1,371,000	+0.8	11.9	11.6
Isuzu & Saab	44,000	-1.1	0.4	0.4
Peugeot (incl. Citroen)	1,399,000	+0.9	12.1	11.8
Fiat (incl. Lancia, Alfa Romeo, Ferrari, Innocenti, Maserati)	1,386,000	-7.6	12.0	12.8
Ford (Europe, USA & Jaguar)	1,334,000	-5.4	11.5	12.0
Ford Europe	1,322,000	-5.3	11.4	11.9
Jaguar	10,000	-13.9	0.1	0.1
Renault	1,219,000	+4.1	10.5	10.0
BMW	363,000	+8.3	3.1	3.0
Nissan	371,000	-5.1	3.2	3.4
Mercedes-Benz	352,000	-11.8	3.0	3.4
Toyota	285,000	-11.2	2.5	2.7
Rover	271,000	-11.4	2.3	2.6
Mazda	235,000	-8.6	2.0	2.2
Volvolt	172,000	+0.0	1.5	1.5
Honda	154,000	+2.0	1.3	1.3
Mitsubishi	138,000	-19.4	1.2	1.5
Total Japanese	1,371,000	-7.5	11.9	12.7
<b>MARKETS:</b>				
Germany	3,380,000	-8.0	29.1	31.1
Italy	2,082,000	+3.3	17.9	17.1
France	1,707,000	+0.4	14.9	14.5
United Kingdom	1,407,000	-1.9	12.2	12.2
Spain	828,000	+10.9	7.2	6.4

Source: Industry estimates

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# Alleged errors fuel school rankings row

By Andrew Adonis, Bethan Hutton and Alan Cane

CONTROVERSY over the government's exam results league table intensified yesterday, with a catalogue of complaints and errors and the revelation that the government employed two private contractors to compile its statistics.

The use of small private contractors to gather and process the examination statistics led last night to allegations that the government had failed to supervise the operation and ensure its statistics were accurate.

Manchester High School for Girls is considering legal

action after its league table entry stated that only 18 per cent of pupils gained five or more GCSEs at grades A to C. The correct figure was 100 per cent, and the head mistress said she "repeatedly" told the department of the error before publication.

The education department said it was "seriously investigating" all complaints. Mr John Patten, education secretary, has not apologised for errors in the league tables, but will, however, appear before the Commons education select committee next Wednesday to be cross-examined.

The main contractor, PMS Communications, a small Bir-

mingham-based company employing 30 people, specialises in computer systems for the education sector. Last night it said the allegations of mass inaccuracies were mainly the result of rules laid down by the Department for Education.

PMS, a niche company not well known in the data processing industry, has in the past carried out contracts with examinations boards, but it has no experience of operations on this scale.

Mr Craig Peppiatt, a PMS director, admitted there were some errors, but said: "That is the sort of thing which is bound to happen in the first year."

He said most of the problems arose because of misunderstandings about the basis upon which tables were compiled and lack of time for schools to check their results. The role of the second contractor, Bath University, was itself a source of controversy last night, with PMS citing it as a separate contractor and the Education Department denying any knowledge of it.

Computer analysts said in PMS's defence that the principle of "gigo" - garbage in, garbage out - seems to have applied.

Data analysis specialists emphasised the care needed in designing surveys if the right

data is to be collected.

The row dominated prime minister's questions in the Commons. Mr John Smith, Labour opposition leader, accusing the government of having "botched" the results. Mr John Major said it was "hardly surprising" there were errors since it was "the biggest exercise of its kind undertaken by the government".

Numerous other cases of inaccurate information surfaced, including cases of schools which pool their sixth forms being shown as having no A-level entries of their own. Cambridgeshire county council said the tables included 53 errors for their schools alone.

# Watchdog asked to sniff out suspected perfume monopoly

By Guy de Jouglares, Consumer Industries Editor

THE Office of Fair Trading yesterday asked Britain's monopolies watchdog, the MMC, to investigate whether perfume manufacturers are illegally restricting supplies of fine fragrances to keep retail prices high.

The decision marks a victory for Superdrug, the cosmetics chain, which sells leading fragrances at discounts of up to 30 per cent on the normal retail price at 15 of its 670 stores.

Superdrug, part of the Kingfisher retail group, has complained to the OFT that leading manufacturers such as Givenchy and Yves Saint Laurent have refused to supply it directly, forcing it to obtain their products more expensively on the "grey" market.

The investigation will focus on whether manufacturers have denied supplies to cut-price shops by applying

unfairly standards governing the sale of their products in retail outlets.

The MMC, which has nine months to report, will also examine complaints by Superdrug that national magazines and newspapers have refused to accept advertisements for its range of discount perfumes.

Superdrug says it has been unable to obtain perfumes directly even though it has sought to meet the manufacturers' standards by investing in special counters staffed by trained sales assistants.

The OFT has studied the case for almost a year. It was unsure until recently whether it could act, because the European Commission has exempted from EC competition rules some restrictions imposed by perfume manufacturers on distribution.

Sir Bryan Carsberg, director general of fair trading, said yesterday he was not seeking to negate the EC exemptions.

But some of the supply restrictions were not covered by the exemptions and could violate Article 85 (1) of the Rome Treaty, which outlaws anti-competitive trade practices.

He wanted the MMC to assess whether these restrictions were in the public interest and were being used indirectly to maintain retail prices in violation of the law.

He also asked the MMC to examine whether the EC exemption system should be modified to ensure it was applied fairly.

According to the OFT, UK sales of fine fragrances - defined as perfumes, toilet waters and after-shave lotions with a retail price of more than £15 for 50 millilitres - total about £180m a year.

As well as Givenchy and Yves Saint Laurent, leading suppliers include Chanel and Christian Dior. None of the companies would comment yesterday.

# Further Maastricht clashes anticipated

By Ralph Atkins

TORY Euro-sceptics are expected to clash again with the government over Maastricht following warnings by MPs yesterday of difficulties ahead in ratifying the treaty.

Hopes that EC leaders will reach agreement on how subsidiarity can be applied in principle, "will be difficult to achieve" in time for the Edinburgh summit in December, according to the House of Commons foreign affairs select committee.

Mr John Major, meanwhile, begins a tour of European capitals on Monday, starting in Brussels.

He hopes to make progress towards finding agreement at next month's Edinburgh EC summit on how Danish objections to Maastricht can be overcome and on defining subsidiarity - the principle of decisions being made at the lowest possible level.

But in a new report published yesterday, the Commons foreign affairs committee said it was "unclear" how the changes to Maastricht needed before a second Danish referendum can be made legally binding - as the country wants - while sticking to the agreement of other EC countries not to renegotiate the treaty.

The affect on Britain of

changes to accommodate Danish concerns also remained unclear, the MPs added.

Downing Street indicated yesterday that the prime minister may concede a discussion at Edinburgh on joint action to deal with economic recession - possibly including European Commission proposals based on monetary co-operation and a public works programme.

Officials said the summit would "certainly" discuss economic growth.

Any fresh proposals, however, would have to take into account the European Community's past commitment to "sound public finance" and the reduction of government deficits.

Downing Street continues to emphasise the importance of a deal on the General Agreement on Tariffs and Trade.

The opposition of some government MPs is likely to resurface on Tuesday when MPs will debate developments in the European Community and its future financing.

The following week, they will consider the Maastricht treaty bill in detail at the so-called committee stage.

About 300 amendments have been proposed to the Maastricht bill and little headway is expected in the two or three days to be set aside to debate the issue before Christmas.

# Universities see threat to fee income

By Andrew Adonis

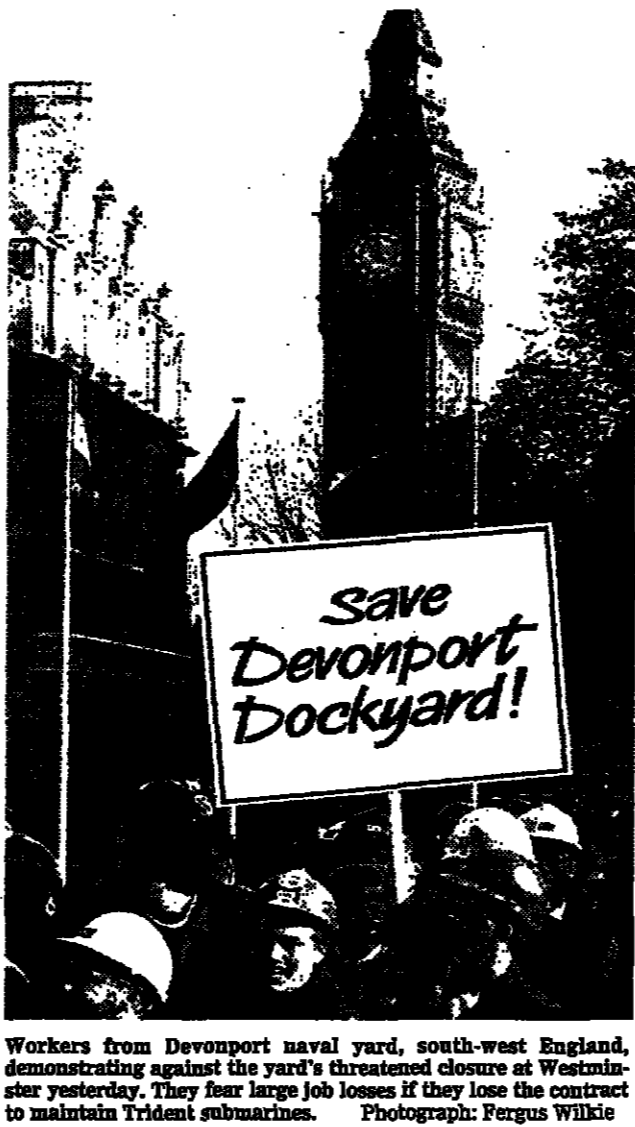
UNIVERSITY chiefs are concerned that the government's determination to slow the expansion of higher education will lead to cuts in fee income, causing severe financial difficulties for some.

Until last week's Autumn Statement, universities had expected tuition fees for next year to be increased by at least 10 per cent, in line with the government's policy of encouraging institutions to raise intake to match demand.

However, Mr John Patten, education secretary, announced last week that funding projections would only allow a 13 per cent increase in student numbers over the next three years - equivalent to the increase in polytechnic students for next year alone.

Mr Patten has also asked the Higher Education Funding Council to use its funding leverage to give greater incentives for institutions to recruit students to engineering and science courses. The government pays universities £1,855 for each undergraduate student studying a classroom-based course, £2,770 for those on laboratory-based courses, and £4,955 for clinical courses.

The funding council is expected to announce the new funding regime before Christmas.



Workers from Devonport naval yard, south-west England, demonstrating against the yard's threatened closure at Westminster yesterday. They fear large job losses if they lose the contract to maintain Trident submarines. Photograph: Fergus Wilkie

# DTI urged to approve Iran export licences

By Andrew Baxter

A UK-Iranian joint venture worth up to £15m in business to BSA Tools, the machine tool company, is being held up by delays over export licences, it was claimed yesterday.

Mr Keith Bailey, the company chairman and a central figure in the Matrix Churchill affair, is urging the Department of Trade and Industry (DTI) to approve a licensing deal under which lathes would be produced in Iran.

Kits worth £150m could be supplied over the next five years for assembly in Iran, which badly needs new manufacturing technology to rebuild its industrial base.

Mr Bailey said the BSA licence application has been with the department for months, but the Iran project has been "on the back burner" because of the Matrix Churchill case and his own trial over alleged illegal exports to Iraq.

Now, with charges dropped

against Mr Bailey and three Matrix Churchill executives, the BSA chief is keen to go ahead with the project.

The DTI said yesterday it could not comment on individual cases. Last month, however, it introduced special licensing procedures for a list of countries including Iran, to ensure equipment such as machine tools could not be used to make weapons.

This meant that export licence applications for Iran were now taking longer, said the department yesterday.

Mr Bailey's company Automation Investments bought Matrix Churchill from Iraqi ownership two years ago, but the Coventry-based lathe and grinding machine producer went into receivership after bank funding was withdrawn.

Last month, AI, which also owns BSA Tools, bought Matrix Churchill back from the receivers, Price Waterhouse. The grinding business has been sold, leaving Mr Bailey with the Churchill lathe range.

# Britain in brief



## BA averts strike by ground staff

British Airways has averted strike action planned for today by conceding to union demands for consultation over new pay and conditions for ground staff at Gatwick. London's second airport.

More than 1,200 staff, including booking and ticket sales staff, had voted overwhelmingly for strike action over the airline's imposition of pay cuts averaging 25 per cent and BA's failure to operate negotiated consultation procedures at a local level.

The row follows the airline's acquisition of Dan-Air, formerly the UK's oldest independent airline - for £1 - and the introduction of new pay scales for staff in the newly formed subsidiary company known as British Airways Gatwick Services without consultation. BA has now agreed to follow negotiated consultation procedures after the members of IGWU general union voted 909 to 111 in favour of a strike.

## Airlines seek legal review

Virgin Atlantic and Airlines of Britain Holdings, the owners of British Midland, are expected to apply for permission to seek a judicial review of the government's failure to refer the takeover of Dan-Air by British Airways to the Monopolies and Mergers Commission.

## Runway plan reconsidered

Manchester Airport has widened the search for where to build a second runway after mounting protests from residents' groups about the environmental impact of nearly doubling the airport's size by the end of the century.

## Increase in restaurants

The number of large, high-quality restaurants opening in London this year has been greater than at any time since 1966, according to a new report by the editors of the *Harden's London Restaurants* guide.

## Award for FT writer

Andrew Taylor, construction correspondent of the *Financial Times* was judged business and financial journalist of the year in the International Building Press Journalism awards.

## Pollution details protected

Power stations should be allowed to keep secret some details of the pollution they emit on grounds of commercial confidentiality, according to the first government decisions under new environmental legislation. Mr Michael Howard, environment secretary, accepted an appeal by National Power that details about future emissions at its power stations should not be made public because they would reveal its future needs for fuel to its commercial disadvantage.

# Nissan shifts export operation

By Chris Tighe

NISSAN, the Japanese car manufacturer, is to move its export and import operations from Teesport to a new custom-built terminal on the River Tyne in north east England, it announced yesterday.

The arrangements will include the export of cars made at Nissan's UK plant, in Tyne and Wear, to 30 countries, including Japan - a traffic contributing about £900 million this year in export earnings to the UK economy.

Winning the prestigious Nissan contract, initially a five-year deal from January 1994, is a major coup for the Port of Tyne which at present depends for nearly half its annual cargo tonnage on highly vulnerable coal shipments.

Teesport is part of the port of Tees and Hartlepool, Britain's

second biggest port. Nissan's decision is a blow for Teesside Holdings, the consortium which bought the port for £180m early this year.

The traffic of Nissan cars through Teesport, which will cease in December 1994, originated in 1970 as an import operation by the now-defunct independent distributor Nissan UK. When Nissan began exports from its Sunderland plant in 1988, it decided to use Nissan UK's Teesport facilities.

But when relations with Nissan UK broke down last year, the car maker began detailed evaluation of its future shipping needs, assessing quality of service, cost and efficiency levels offered by six north east England locations. Criteria included deep water, needed for Nissan's huge 5,500-car "mother ship".

Since 1988, Nissan has

exported 357,000 Sunderland-made cars, nearly all through Teesport, which this year is also handling 40,000 imported Spanish and Japanese-built Nissans.

Under the new deal a small number of Sunderland-made cars will still be exported through Southampton.

Output of Primera and Micra at Sunderland, 175,000 this year, will rise in 1993 to 270,000. At least 70 per cent will be exported. In 1994, Nissan plans to export more than 200,000 Sunderland-made cars from the Tyne.

Because the Tyne is closer Nissan's Sunderland plant and adjacent national distribution compound, car transporter movements will be reduced by 900,000 miles a year. Nissan's 37 Teesport employees will be offered work at the Tyne terminal.

# Halt in funding for fast reactor research criticised

By David Lascelles and Alison Smith

THE UK nuclear industry reacted angrily yesterday to the government's decision to cease funding for research and development of the European fast reactor, a joint programme by the UK, France and Germany. But it was welcomed by others, given the uncertain outlook for nuclear power.

Mr Tim Eggar, energy minister, told MPs the government could not justify continuing since the design validation stage had been completed and there was "general agreement" that the commercial deployment of the fast reactor will not be justified until well into the next century.

He said that about 270 jobs would be lost: roughly 40 at Dounreay, Caithness and about 180 at Risley, Cheshire. Some 40 people were also likely to be made redundant at Winfrith, Dorset.

Although the government's decision is not linked to its efforts to save jobs in the coal mines, it comes at a time when the nuclear industry feels vulnerable to cutbacks.

In a joint statement, Nuclear Electric, Scottish Nuclear, British Nuclear Fuels and AEA Technology - all government-owned - said they "greatly regret" the move. Mr John Collier, the chairman of Nuclear

Electric, said there were signs of growing interest in fast reactors in Japan, the US, Russia and Spain. "The irony of the government decision is not lost on UK industry," he said.

Despite Mr Eggar's insistence that the government was following a recommendation made by the cross-party Commons energy committee in 1990, that it should review the position at the end of the design validation process, he came under attack from MPs across the Commons.

Tory and opposition MPs pointed out that Japan, America and other countries were continuing with their research, and they warned with dismay of the consequences of the UK giving up its lead in this field, since it was impossible "to mothball nuclear physics".

Rejecting the charge that the government was not committed to the research, Mr Eggar said that over the past 40 years more than £4bn (at 1992 prices) had been spent on the project, of which £1bn had been since 1979. Fast reactors have long embodied a dream of virtually boundless energy. They burn uranium much more efficiently than regular nuclear power stations, and their early impetus came in the 1970s when fears of oil shortages caused governments all round the world to seek new sources of power.

The power industry has changed radically since then. Oil and gas supplies have proved plentiful and cheap, and has uranium. But the cost of fast reactors has soared, and no country has been able to develop a commercial programme. Outside Russia, which has the most developed fast reactor industry, only Japan is close to launching a new prototype. In both France and Germany, programmes are stalled.

The European collaboration which the UK pulled out of yesterday was an effort to surmount these hurdles. The nuclear lobby argues that the basic case for fast reactors remains strong because of the long-term needs for diverse fuel supplies and the technological spin-off. A further reason is to burn the plutonium now being removed from redundant nuclear warheads. But the UK government has been cooling off fast reactors for some time and it had already announced withdrawal of funding for the UK prototype at Dounreay.

Mr John Chesshire of the Science Policy Research Unit at Sussex University said the government had taken the right decision, because of what he described as "the major reassessment" that is currently being made about the economics of nuclear power.

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## MANAGEMENT

**PERKS: Norma Cohen continues the series with a look at one of the most expensive benefits that companies provide for their employees**

# Why pensions pay off

**O**f all the benefits provided to employees, perhaps none is more costly than a good pension scheme. Employers typically contribute anywhere from 10-12 per cent of payrolls to finance the classic "final salary" scheme - no small outlay.

Yet, as an increasing number of employers is discovering, the pension is among the least understood and appreciated of all benefits on offer. Mark Duke, benefits consultant at actuaries Towers Perrin, says that an increasing number of corporate clients are conducting surveys of employees' attitudes to various benefits. "You often find that employees' appreciation is in inverse proportion to the expenditure involved," he said.

Towers Perrin's own employee studies have found, for instance, that the company car and subsidised mortgage mean a lot more than the really high-cost items such as pension.

Why, then, do employers bother? According to Charles Evans, partner at actuaries Mercer Fraser: "The traditional view is that it helps recruitment, motivation and retention. It is also promotion for the company's image. It says 'this is a company which cares about its employees'. And it really does help retention." More generally, pensions remain on offer because employers feel they must offer them in order to be able to compete for the best staff, adds Evans.

The need to offer the same benefits package as other employers in similar industries has been one factor inhibiting large companies from curtailing pension benefits and, indeed, has encouraged their enhancement over time.

But if employees, particularly younger ones, do not know or care about the structure of pension benefits, why do employers continue to insist that they must offer them? Significantly, figures from the National Association of Pension Funds' latest survey show that in 1991 some 16 per cent of all new employees rejected the opportunity to join their company scheme.

And since 1988, when membership in an employer's occupational scheme became no longer mandatory, the number of scheme members in Britain has fallen. While this may partly reflect demographic trends, it is clear that some employees are electing either to join personal pension plans or none at all.

Some pensions experts argue that pension provision is not wholly a charitable exercise. Employers earn benefits other than a happy workforce.

"The reasons are tax, tax, tax," says John Cunliffe, partner at McKenna and Co and a leading pensions lawyer. Employers' contributions to a scheme are tax deductible and investment income rolls up tax-free. Those employers who avail themselves of the surpluses through contributions holidays are, in effect, able to make use of tax-free investment gains to offset expenditure.

Also, Evans points out, the availability of a fully-funded pension scheme offers an employer a relatively painless way of funding redundancies. Pension benefits can - and frequently are - enhanced to induce workers to leave quietly, without threat of industrial strife and with no effect on profits.

Kevin Spring, partner at international benefits consultants The Pensions remain because employers feel they must offer them to compete for the best staff

Wyatt Co, says that some impetus for corporate pension schemes has come from UK tax legislation. Tax rebates were offered to those companies that agreed to pick up the salary-related portion of state pension benefits through so-called contracting-out arrangements. That tax rebate was used by many companies to build up their pension funds," Spring says.

Ron Amy, compensation and benefits director at Grand Metropolitan, argues that some employers' reasons are shrouded in history. Since the 1920s, when employers first began offering organised occupational pensions, they have grown to the point where they now account for more than 70 per cent of retirement income. The growth of occupational pensions has blunted political demands for more generous state provision and Britain has one of the least generous schemes in Europe.

Says Amy: "We are now in a situation where there is no alternative state provision." He feels his company has no alternative but to provide a good scheme. "But we also have had the phenomenon in the 1980s of pension fund surpluses which have sharply reduced the cost. Perhaps the real question is what will happen when the contributions holidays are over and companies have to begin making provision again."

Already, there are rumblings that the classic final salary scheme, which promises workers two-thirds of their last year's pay, is under threat. Trevor Crowter, principal actuary at KPMG Peat Marwick Actuarial Services, notes that among small companies, the trend is towards so-called money purchase schemes. Instead of guaranteeing a worker a set pension for as

long as he or she lives after retirement, these offer a lump sum instead. The sum should be sufficient to guarantee the purchase of an annuity, but they rarely offer inflation indexing or other benefits attached to final salary schemes.

However, from the employer's point of view, money purchase schemes cost less and are thus more attractive. Meanwhile, the recent wave of pensions legislation, and the promise of more to come, is driving up costs. Since 1985, for instance, employers have been required to increase the value of deferred pensions by up to 5 per cent a year and, when the provisions of the 1990 Social Security Act come into effect, pensions being paid will have to be increased by a similar amount.

Earlier this year, Standard Life, one of Britain's largest insurers, announced that it would no longer offer final salary schemes - widely interpreted as a sign of shrinking demand for a product of increasing complexity and cost.

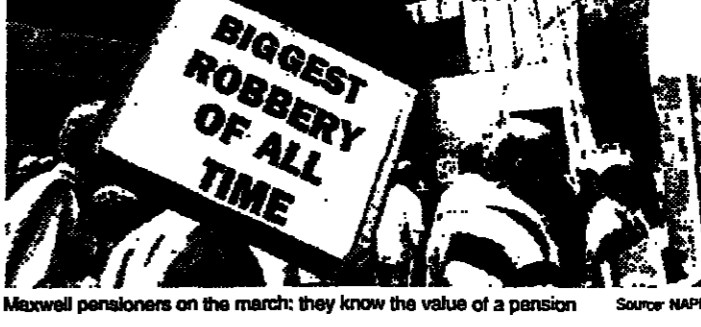
"There is an element of paternalism here on the part of British employers," says Brad Nelson, head of employee communication at Towers Perrin. "And I wonder how long they can reasonably be expected to keep that up."

## How the schemes operate

	PRIVATE	PUBLIC	ALL SCHEMES
Proportion of employers taking a contribution holiday or temporary reduction of contributions in 1991			
Full holiday	34%	13%	33%
Reduction	14%	21%	14%
Sample size	810	63	873

	PRIVATE	PUBLIC	ALL SCHEMES
Proportion of employers who actively encourage new employees to join scheme where new employees are not automatically entered			
Actively encouraging new employees	93%	76%	92%
Sample size	371	17	388

	PRIVATE	PUBLIC	ALL EMPLOYERS
Employees joining scheme			
Average of eligible employees entering scheme	84%	85%	84%
Sample size	406	25	431



Maxwell pensioners on the march: they know the value of a pension Source: NAPP

**Christopher Lorenz assesses new research aimed at helping companies to revitalise themselves**

## Different routes through the minefield of change



Unlike journalists, most academics are slow to commit their thoughts to paper. Even business school professors can take six months to write a short treatise.

So congratulations are due to two sprightly scholars for taking only four weeks to come up with a very practical paper on one of the hottest issues of the moment: how selective companies (even ones still thriving on past success) can set about transforming themselves into lean, agile and creative predators capable of seizing on every future shift in their competitive environment, and turning it to their advantage.

From General Motors to IBM, British Airways to thousands of small companies, the tricky topic of how to handle this type of radical change preoccupies almost every company these days.

Two of the puzzled academics at

the conference were Dr Barbara Blumenthal, of Temple University, Pennsylvania (she also works for Gemini Consulting) and Professor Philippe Haspeslagh of Insead, one of Europe's top business schools. Their reaction to the post-conference confusion was to get together and thrash out a working paper which knocks some welcome order into the subject. In many respects it contains more sense than some previous books on it.

In essence, the duo's message is as follows. As distinct from the simple word "change", a corporate "transformation" is very considerable in both scope and depth. A litmus test is whether the behaviour of most people in the organisation is affected significantly.

There are three basic types of transformation process, each of which may include radical changes in culture. In other words, cultural change is not a separate category, as most academics and consultants would maintain. Nor, as companies are usually advised, must a transformation process necessarily focus directly on issues of competitive strategy if it is to succeed.

The three most common types of transformation process, say Blumenthal and Haspeslagh, are: ● Radical operational improvement. Typically, this involves thorough redesign of business processes, supported by changes to structure, skills and behaviour. ● Strategic transformation. Some strategic changes, such as mergers,

do not always imply transformation. Fundamental changes in strategy spark ones in the components of the organisation: its structure, processes, people and culture.

Such transformation can be attempted in several ways. One is the traditional top-down approach, which can work in some cases. An increasingly popular approach, dubbed "strategic framing", involves top management defining the company's strategic intent, as at Motorola, but then encouraging a great deal of experimentation and championing of actual strategies by middle managers.

Some experts advocate a more minimalist view of the top team's ability to set even just strategic direction, and call for middle management to take the lead in a "middle-up-down" approach. They claim that the current chaos at Digital Equipment is of this kind, and was stimulated deliberately.

Genetic re-engineering. This is out in a category of its own, compared with the other two. It involves efforts by top executives to instil a management approach which is able constantly to renew the organisation, by anticipating and coping with change whenever big market changes occur. This involves creating a host of new structures, processes and behaviours, including culture change.

The term "genetic re-engineering" is jargon and, as a metaphor drawn from science, is not strictly accurate. But it certainly conveys the fundamental nature of the type of transformation involved. It also helps separate "genetic" changes, such as those at US General Electric since 1981, from less broad and deep changes.

Again conflicting with much conventional wisdom, Blumenthal and Haspeslagh say there is no one "correct" combination of these three processes, nor sequence in which they should be attempted.

The duo ends with two wise maxims. First, that transformations of any kind are more easily started than completed - especially if middle management cannot be converted solidly to the new approach.

And second, that the need to transform never ends. Even highly adaptive, "self-renewing" companies, such as 3M and Hewlett-Packard, need periodic and carefully engineered transformation. So how about your organisation?

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The adult elk is large, heavy and mostly dark. In winter, the Swedish countryside is mostly dark as well. Which explains why surprised Swedish



drivers and elks often collide. Apart from elks, Sweden offers other unexpected road hazards like ice, snow and mud.

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\*\*Non standard on all Saab 900 models in DK, IS, SE, NL.

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# THE PROPERTY MARKET

## The allure of warehouses

The sector's attractive yields have caught the eye of investors and developers, writes Vanessa Houlder

The humble warehouse has long been regarded as one of the least glamorous sectors of the property market. That dowdy image, however, is in part responsible for its laudable record as one of the industry's most successful sectors.

In the 1980s, speculators' neglect of this seemingly unpromising market helped protect it from the oversupply that plagued the rest of the industry. That, in turn, helped warehouse properties generate returns of 22 per cent over the past five years – more than double the market as a whole.

However, the sector's reputation is changing. High yields, low management costs and the availability of new leases with good covenants have attracted new investors in the past couple of years. At the same time, a flurry of interest from developers has raised the possibility of oversupply.

Recent concern about oversupply is well founded, according to a new report\* by Chesterton, the property consultancy. "Caution is required to prevent the bandwagon effect which led to oversupply in the B1 (light industrial and other business uses) market," it warns.

The shift in attitude stems in part from far-reaching changes within the distribution industry itself. Modern warehouses are larger, more carefully positioned and more sophisticated than ever before – a trend that is most visible in the big distribution parks that have emerged along the M1 and M6 motorways throughout central England.

The impetus for change in the distribution industry has come from the need for improved response times and more frequent, faster deliveries. This has stemmed from the heavy costs of holding stock, the relative fall in transport costs and the increasing dominance of the large retailers.

"The conventional warehouse of the early 1980s is now becoming increasingly outdated," says Chesterton. "As the level of sophistica-

Warehouse properties have generated returns of 22 per cent over the past five years

deliveries. This has stemmed from the heavy costs of holding stock, the relative fall in transport costs and the increasing dominance of the large retailers.



Market lift: new distribution practices have also fuelled demand

tion continues to increase, so the life of the building shortens and the rate of obsolescence grows."

Large retailers, particularly grocers, have been the driving force behind such changes. From the mid-1970s onwards, they began to switch from local distribution systems controlled by suppliers to their own regional or national distribution networks. Other types of retailers have gradually followed suit, although many are still grappling with the need to centralise their distribution networks. Most manufacturers are even further behind, having concentrated on rationalising their production facilities in the 1970s and 1980s.

The momentum of these changes has been checked by the slowdown in the economy. "It has been slowed down by recession but it is still happening," comments Ms Christina Howick, a partner of PMA, a London-based property consultancy.

Even without the recession, the distribution industry is faced with some important challenges and

uncertainties, including:

● The road versus rail debate, which has important implications for the location of distribution centres. The case for distribution by rail is enhanced by the costs of congestion, pollution and other environmental concerns. However, many manufacturers and retailers are sceptical of the rail industry's ability to provide the right level of service and reliability.

● The single European market, which is prompting manufacturers to review their manufacturing and distribution operations on a pan-European basis. Companies wanting to service the northern European market from one location are likely to favour northern France, Belgium, Germany and Holland over the UK.

● The future supply of land for warehouses. Chesterton reports that investors are concerned about the high allocation by local authorities of land for distribution uses. This could depress the rate of rental growth, investors fear.

At present, the distribution of land with planning permission for warehouses is very uneven. The south-east and east Midlands have more land with detailed planning permission for such use than other regions.

This concern contrasts with the complaints of developers about what they consider to be restrictive planning policies. "There is a dearth of constructive planning policies on the subject which is hampering British industry," complains Gezeley Properties, a leading warehouse developer.

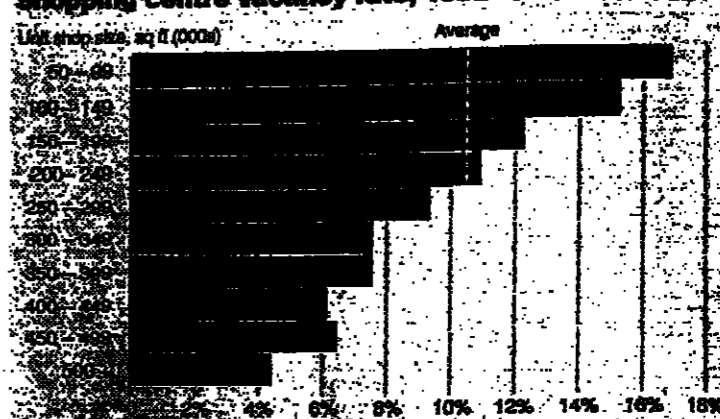
● Pressures for shorter leases, particularly for second-hand space. "Short-term distribution contracts are typically three to five years and there may be resistance to an institutional lease of 25 years," says Chesterton.

As well as these uncertainties, warehouse property has the disadvantage of large average lot prices – often costing more than £10m. This, combined with the specialist nature of these investments, heightens the risk involved in replacing a defaulting tenant.

These risk factors justify a higher yield than other kind of property. Indeed Chesterton believes that some yields have been driven down to unrealistic levels. The growing availability of research and awareness of this class of property are likely to stimulate continued interest among investors. But the downward trend in yields suggests that the re-rating of the sector over the last few years may have run its course.

\* *Shedding Light on Warehousing and Distribution*, Chesterton Research Department, 54 Brook Street, London W1A 2BU, £55.

### Shopping centre vacancy rate, 1992



VACANCY RATES in shopping centres are markedly higher in small schemes, according to new research by Hillier Parker, the chartered surveying firm.

Many smaller schemes do not have sufficient critical mass or sales potential to attract large chain retailers and strong independents, according to Hillier.

The average unit shop vacancy rate in schemes opened between 1985 and 1989 is just 5.7 per cent – well under average high street levels – compared with 20 per cent for schemes opened between

1986 and 1991.

In many cases, high vacancy rates in schemes that opened after 1989 cannot be blamed on the sharp decline in vacancy rates. "In a significant number of cases, letting problems result more from scheme deficiencies," it says. Flaws included poor scheme design, inadequate anchoring, insufficient critical mass and an inappropriate scheme size.

Vacancy rates are highest in southern England, reflecting a build-up of supply and the subsequent decline in demand since the late 1980s.

### TOTAL RETURN (%)

	Retail	Office	Industrial	All Properties
Year to Sep 92	6.2	-6.0	3.1	0.9
Quarter to Sep 92	0.2	-2.1	-0.7	-0.6
Month of Sep 92	-0.4	-1.0	-0.6	-0.7

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## FINANCIAL TIMES

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Friday November 20 1992

## Co-ordination within Europe

ECONOMIC GROWTH, or more precisely the lack of it, has replaced inflation as the pressing concern of most European governments. The UK government has already shifted to a pro-growth strategy by partly turning its back on European co-operation. Is this the only alternative for governments that are worried about slow growth and rising unemployment? Or would a change in policies, either co-ordinated between governments or conducted at the European level, be a better way to revive their stagnating economies?

European countries have shared economic problems, which are getting worse. The OECD, in September, forecast European growth of 1 per cent this year and 1.5 per cent next, not low enough to be a recession but too little to prevent the unemployment rate from rising above 10 per cent. The resulting protectionism and anti-immigrant right-wing populism could not have come at a worse time.

Understandably, the Commission wants a co-ordinated response. Yet the EC already has a shared macroeconomic policy which is largely to blame for its current economic difficulties. The European exchange rate mechanism, once a force for disinflationary good, has become an engine of deflation. It has imposed a tight monetary policy which, however appropriate for Germany, has proved increasingly inappropriate for the rest of the ERM, as the Bank of England pointed out in yesterday's Bulletin. Both the UK and Italy, countries with serious internal problems, found the pressure too great and were forced to depart from the ERM. Yesterday, Sweden was forced to retreat from its ERM link.

## Monetary response

A co-ordinated loosening of monetary policy is the obvious remedy for this co-ordinated deflation. Yet the persistence of inflationary pressures in Germany, and the unwillingness of France to contemplate a general realignment, look likely to prevent German and thus ERM interest rates from falling more than modestly for months rather than weeks.

Does fiscal policy offer an alternative? Loose fiscal policy is, in fact, the route that most slow growing countries have already been forced to take. The Commis-

sion estimates that the EC budget deficit has risen from 2.8 per cent of EC output in 1989 to 5 per cent this year, larger than the fabled US deficit. If the Maastricht fiscal rules were suspended, then there would be room for more fiscal pump-priming. The large European economies, including the UK, are still sufficiently closed that unilateral expansion would have some positive effect. A co-ordinated expansion could, in theory, have beneficial spill-over effects across the community and beyond.

## Multilateral solution

Yet it is doubtful whether fiscal policy can do the trick and may well be counter-productive in the face of a persistently tight monetary policy. The spill-over effects of Germany's sizeable fiscal expansion following unification were short-lived and, for most countries, more than outweighed by high interest rates. In any case, Italy, Germany, the UK and Spain are already in serious fiscal difficulties. The markets might expect a further boost in these countries to be permanent and force long-term interest rates higher.

Nor are Mr Delors' proposals for more spending at an EC level anything more than a frustrated gesture. He may be right to push for more infrastructure spending in poorer countries for "cohesion" purposes, and if this is his intention he should say so. But an ECU 5bn increase in spending, just 0.09 per cent of EC GDP, is too small and would arrive far too late to have any effect on overall economic growth.

The EC's situation looks increasingly perverse. Calls for a co-ordinated fiscal policy, which would in effect mean little more than a rise in the French budget deficit, have arisen because the EC already has too much of the wrong kind of co-ordination. The stranglehold of high German interest rates must be loosened. Without a deal that allows European interest rates to fall soon, the markets may yet impose further British or Swedish-style unilateral solutions. But a fiscal boost in France might work if it were combined with an offsetting tightening of German fiscal policy, to allow the Bundesbank to cut German interest rates. This would be co-ordination worth having.

## Cars, congestion and pollution

THE AUTUMN Statement's removal of car tax may help sell a few more cars, but it also emphasises the contradictions between the UK's transport and environmental policies. More cars mean both more congestion and more pollution. The question is whether the two birds can be killed with one policy stone or whether distinct instruments are required.

Official forecasts of UK emissions of carbon dioxide, one of the gases thought to cause global warming, range from an 18 to a 78 per cent increase over 1990 levels by 2020, at least in the absence of new environmental curbs. If present trends are extrapolated, the volume of traffic on the roads will also rise by two and a half times in the next 30 years. These developments are related, since emissions from transport are the fastest growing category in all forecasts.

Traffic was already mainly responsible for the 30 per cent rise in carbon monoxide emissions during the 1980s. Traffic also doubled the emissions of black smoke over the same period. The introduction of catalytic converters on new cars from next year will begin to curb the emission of those unpleasant gases. But converters work properly only on hot engines, while most car journeys are shorter than five miles. Converters will also fail to reduce emissions of carbon dioxide. Failure to change the transport trend therefore threatens the UK's ability to meet internationally agreed environmental targets, which require "greenhouse gases" to be back to 1990 levels by 2000.

## Marginal cost

Growth in the private use of motor vehicles is so high partly because of the underlying increase in demand, partly because of unwillingness to provide alternatives and partly because of the failure to charge properly for road use. Once a motorist has paid for a car, taxed and insured it, the marginal cost of driving is little more than the price of the fuel and the parking. In consequence people drive too much.

The UK government's most published proposal for meeting the global warming targets is a tax on energy and on its carbon content. But the European Commission has

calculated that its proposed tax of \$10 a barrel of oil or oil equivalent would add only 6 per cent to the price of a gallon of petrol and 9.5 per cent to diesel, not enough to make any difference to demand.

A far higher increase in the marginal cost would be needed if traffic volumes were to be restrained. The simplest tool would be a higher tax on fuel. It would be an unpopular measure, but introduced in stages - with the proceeds returned, perhaps through lower value added tax - it might be politically achievable. It would work by discouraging driving and also by making the vehicle fleet more fuel efficient.

## Blunt instrument

Higher taxes on fuel would tend to lower congestion. But they are a blunt instrument for that purpose. Higher fuel taxes would also fail to provide any incentive to the private sector to build the next private toll roads that the government desires. Thus road pricing, suggested this week by Mr John MacGregor, the transport secretary, has an important role to play.

Road pricing and higher fuel prices are logically distinct instruments addressed at different targets. But they should be mutually supporting. Moreover, in practice, comprehensive road pricing is not something for tomorrow or even for the day after, while a move towards higher fuel prices can be. Tolls on trunk roads can also be introduced relatively soon, along with trial road pricing in cities, before the introduction of more comprehensive road pricing schemes, perhaps early in the next century. In the meantime there is always the possibility of higher taxes on inner-city parking.

Any attempt to tackle the problems caused by motor vehicles will be politically unpopular. This is certainly true of higher fuel prices and road pricing, both of which are likely to be part of the solution. But a survey of attitudes in the European Community, published yesterday, suggests recognition by the average Briton of the environmental threat posed by traffic. The government needs to educate the public on the painful measures required if its vague concerns are to be dealt with effectively.

First, public demonstrations against pit closures; then, warnings of strife over the government's public-sector pay squeeze; and now a strike call for most of the workers on London's Tube network.

The language and the issues seem a throw-back to the 1970s as politics takes to the streets, and the government "goes for growth" and talks about imposing a "pay policy". Mr John Monks, the deputy general secretary of the Trades Union Congress, claims: "There is a mood similar to 1978, the feeling that a particular approach to running the economy has failed and that we need a change."

But with unemployment nudging 3m, common-sense suggests the balance of power is unlikely to shift back to unions. It is only weeks since the publication of figures showing strikes at a 100-year low, and the unions themselves are playing down the prospect of action over pay in the public sector. The Tube workers' threat to start an indefinite strike next Tuesday over pay and conditions, like yesterday's strike ballot by British Airways ground crew at Gatwick, seems to be a special case.

The 21,000-strong Underground workforce is highly unionised and tends to mistrust management. Many are inclined to listen to the few activists whose arguments are bolstered by past victories over less ambitious plans to alter their pay and conditions. The last such attempt was in 1989 when there were 17 separate day-long Tube strikes.

The current dispute, if it comes, could be bitter and perhaps violent. London Underground has made it clear that it will run a service if the RMT railworkers' union calls its members out, and claims enough people will cross picket lines to enable it to do so. Passengers will be carried free if there are insufficient employees to staff the booking offices and ticket barriers.

The origins of the dispute lie in a 119-page document called the Company Plan, launched with a fanfare almost exactly a year ago. This set the scene for a three-year programme of change aimed at turning the Underground into what it always should have been: a clean, efficient, punctual, reliable, safe and customer-friendly railway.

Passengers were told of the plan through a bold - some might say bizarre - advertising campaign in which London Underground accepted that the railway was performing unsatisfactorily, blamed itself, and promised better things.

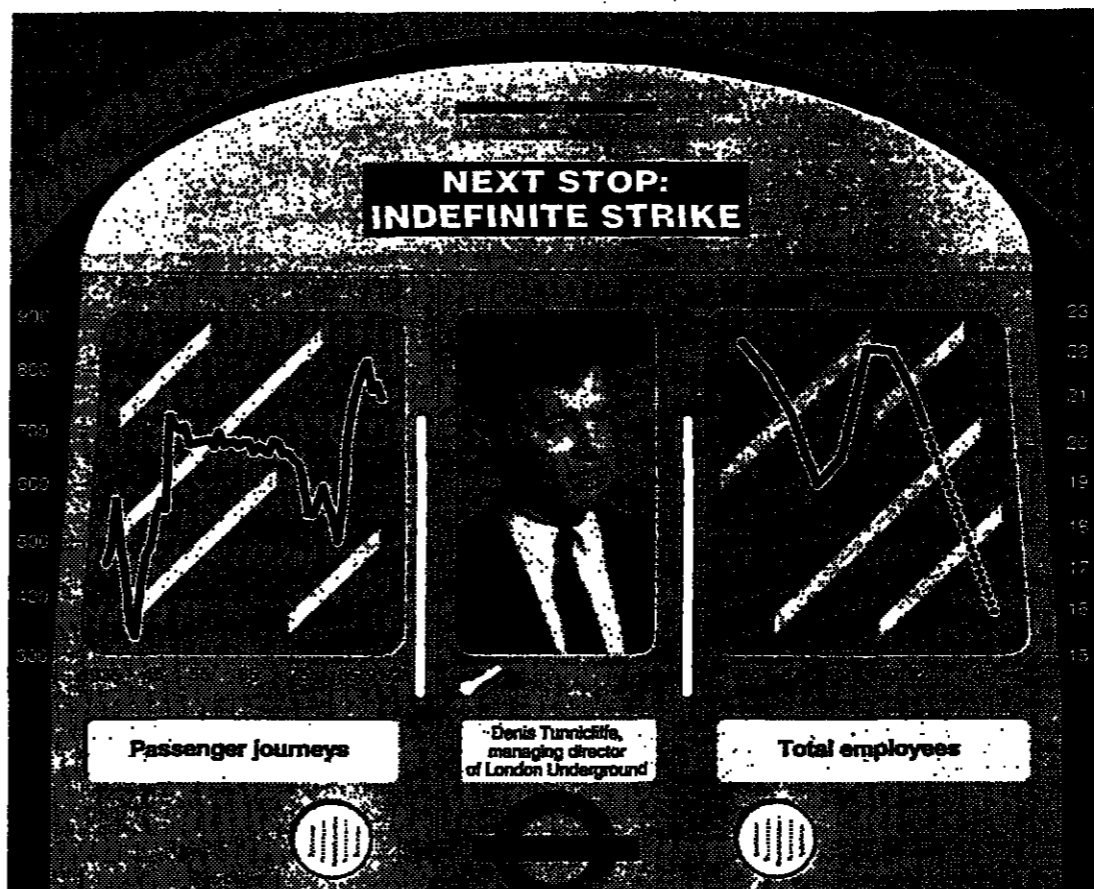
What appeared better was how the Underground's management could accept responsibility for allowing services to become unsatisfactory while simultaneously expecting passengers to have any confidence in its ability to put things right. And in any event, if the problems with the railway were capable of resolution, why had they not been solved before?

The answer, explained Mr Denis Tunnicliffe, London Underground's managing director, lay in the railway's recent history. Throughout the 1970s and early 1980s, passenger numbers declined as employment in the capital fell, and there was little incentive either to invest in the Underground or manage it any better. Then, just as passenger numbers started to climb again during the boom in London's financial services industry in the mid-1980s, the King's Cross disaster struck in 1987.

Some 31 people died in the horrific fire that swept through the north London Underground station.

Underground staff are poised to stage a strike which has echoes of the 1970s, say Catherine Milton and Richard Tomkins

## Ticket to delays and disruption



From that point onwards, safety became the overriding priority. Manpower, which until then had been falling, rose again by 3,000 over two years as employees were taken on to implement safety measures and act as human fire detectors pending the installation of electronic surveillance systems. Meanwhile, stations deteriorated as work was started to rip out potentially inflammable materials, and services were constantly disrupted by the need to halt trains and call out the fire brigade on even the slightest suspicion of fire.

Only in 1990 did London Underground reach the stage where it felt safety could be reasonably assured. Then, in response to the deafening din of complaints about the quality and reliability of the service, it turned its attention to efficiency. It assembled 200 managers into "value analysis" teams and sent them out across the railway to investigate how it could do better.

What the management had expected to find was a series of areas of underperformance that could be picked off one by one and targeted for improvement. Instead, it found such large swathes of poor performance right across the railway that it decided to tackle everything at once. Hence, the Company Plan.

One aspect of the plan is simply a case of doing obvious things to make the railway run better - for example, making more effort to get

train intervals right. As London Underground points out, it may not sound particularly serious if trains do to run at two-minute intervals at intervals of one and three minutes instead. But the result is that 75 per cent of passengers experience 50 per cent higher passenger loadings than they should do.

The solution, according to London Underground, lies in discipline and training. Much of it is simply a matter of making sure the train begins its journey at the right time instead of having to wait on the convenience of a driver finishing his tea-break. After that, it is down to the line controllers and station staff to prevent bunching.

But more important in the context of the current dispute is the other prong of the Company Plan: the onslaught on labour costs. It provides for the workforce to be cut by 5,000 to 16,000, partly by contracting out ancillary activities and partly through an attack on restrictive working practices. One example of the cuts is the contracting-out of station cleaning, where this has not already been done, at a cost of more than 400 jobs. The move will be accompanied by the contracting out of train cleaning, with the loss of another 400 jobs.

More jobs will go through the

ending of restrictive working practices. For example, existing agreements lay down that a driver's shift lasts 8 hours 1 minute. In practice, it is almost impossible to create rosters which fully employ drivers and still get them back to their depots before their shift ends. The introduction of flexible rostering - accepted years ago by British Rail drivers - will enable London Underground to make more efficient use of drivers' time, with a consequent reduction of 600 jobs.

Once redundancy costs have been met, efficiency savings are expected to lower the Underground's operating costs by £150m a year by 1995. In theory, passengers are supposed to feel the benefit through a freeing of resources for higher levels of investment in the railway. Unfortunately, that sentiment is looking a little hollow after the chancellor's decision last week to axe London Underground's investment budget by more than £200m a year below the previous plan to about £200m.

And yet, says London Underground, the rationale for the plan has in no way been undermined by the chancellor's decision. Nor will workers who keep their jobs necessarily be worse off. All employees will switch to salaried status, and most will have more interesting and satisfying jobs; 70 per cent of workers will enjoy pay rises averaging 6 per cent as a result of the changes, and the 30 per cent who stand to

take a cut will have their present level of earnings protected until 1995; and redundancies will be voluntary and spread over three years.

So why strike? One idea the unions find difficult to accept is that gains to the winners should overshadow losses to the losers. The average driver may see his salary increase from £20,250 to £23,000 a year, but less skilled workers such as senior booking clerks will see their pay fall from £18,568 to £18,700 a year.

The unions argue that London Underground's divide-and-rule strategy will not work. It has, they say, neglected certain small groups, such as some 300 signals technicians, who are mostly members of the largest rail union, the left-leaning RMT, which has called the strike. The salary of an assistant signals technician, for example, will drop 15 per cent to £13,440. The RMT says 60 per cent of all signals technicians will lose money under the company's plan. This group, the union says, fears its work will in future be contracted out.

But the dispute, from the union perspective, is not just about pay. The unions believe they are defending a workplace tradition of consultation which management wants to abandon. Even workers who stand to gain financially are exercised by the new conditions. The drivers are concerned about new employment rules under which they claim earnings could drop by as much as £3,000 a year after three years.

Many workers are upset about other planned changes, such as the move to multi-skilling. For instance, booking clerks who may have been dealing with passengers from behind screens for 30 years could find themselves rostered for platform duties. There is also concern over ending the link between promotion and seniority and the move to make some workers re-apply for their jobs under new training schemes. The management counters by saying it has responsibility for promotion and deployment.

Privately, some union officials admit they have been surprised by the strength of members' feelings. However, they have considerable doubts about striking in a recession, and while they point to public support for the miners, they suspect that people are unlikely to demonstrate in support of Tube workers whose jobs were not immediately in jeopardy.

Despite their misgivings, union officials are committed to public backing for the strike. They remember the wild-cat action at the time of the 1989 dispute and are determined not to witness a repeat of it. But the RMT's unilateral call for a strike has already irritated both Aslef, the train drivers' union, and the TSSA, white-collar rail union, whose members are still balloting. As for the passengers - what they want to know is whether they are going to get to work on Tuesday. The answer may well be yes. Although three out of four RMT members voted for the strike, only 56 per cent turned out for the vote; and many of them may have been seeking to strengthen their negotiators' hand rather than express a desire to strike, especially in the run-up to Christmas.

Disruption, on the other hand, seems inevitable, with all that implies in delays, cancellations, overcrowding, lack of information and short tempers. The joke among London commuters is whether anybody will notice the difference.

## The pendulum swings

The privatisation of strategic UK industries and utilities may have its limits, argues Tony Jackson

Italy is selling its banks, France its oil companies, Spain its tobacco monopoly, eastern Europe practically everything. Privatisation, from its tentative beginnings in the UK a decade ago, seems unstoppable.

Except, that is, in the UK itself. The mooted privatisation of British Rail is under fire from all points of the political compass. The idea of privatising Scottish water is supported by just 4 per cent of the Scottish population. The shambles of the pit closures has left the public asking whether the privatisation of gas and electricity has made it impossible for the UK to have a coherent energy policy.

The obvious question is whether the UK, having taken the lead in embracing privatisation, is doing the same in turning against it or indeed, whether the UK is demonstrating to the rest of the world that privatisation has its natural limits.

In looking for an answer, it helps to recall what kind of enterprises are state-owned in the first place. In the UK, at any rate, the list falls into two main categories: so-called strategic industries, and utilities. The first has provided UK privatisation with its greatest headache. The second is its biggest headache.

The concept of the strategic industry has changed and weakened in the years since the second world war. Fighting a conventional war requires ships, aircraft, land transport and raw materials such as steel and oil. Even in peacetime, governments have tended historically to regard those industries as centrally important to the economy. In continental Europe, many still do.

Thus, if those industries required huge capital projects such as steel mills, North Sea rigs or petrochemical crackers, governments paid for them. If individual companies fell on hard times, the government took them over. In the UK, the result

was an extraordinary proliferation of state-owned enterprises: British Steel, British Leyland, British Aerospace, British Airways, British Shipbuilders, Britoil, Rolls-Royce and Royal Ordnance. In the end, one of the most compelling reasons for returning all these to the private sector was that, in peacetime, their products could be obtained perfectly easily on the world market.

The utilities are another matter. In the 1980s, the concept of rolling back the frontiers of the state meant that the idea of centrally planning and financing the national infrastructure became deeply unfashionable. In ideological terms, the chief attraction of privatising gas, electricity, water and telecommunications was that it took the

The question is whether the provision of certain basic services is a collective responsibility

provision of basic services out of the hands of bureaucrats and subjected it to disciplines of the market.

With hindsight, this begins to look like the outward swing of the pendulum: an exaggerated denial of the role of central planning in response to decades of blind faith. The question is not which approach works best in practice. Rather it is whether the population at large feels that the provision of certain fundamental services is a collective responsibility.

The furore over the pit closures suggests it may. When the government privatised electricity, it must have quietly congratulated itself on the neat way it was washing its hands of British Coal's future. When the coal contracts came to be renewed, the generating companies

were bound to cut their consumption. But the government could argue, with perfect logic, that it was powerless to intervene.

The trouble was that the public would not wear it. There was general astonishment and anger at the idea that the deployment of Britain's finite energy resources could not be discussed at government level. Since this had been one of the main ideological points of the exercise, the government was hanging on a hook of its own devising.

The question now is whether this kind of debate will surface elsewhere. There are one or two signs that it may. In the US, even the outgoing Bush administration has devoted much time lately to discussing the infrastructure. In the UK, much of the hostility to privatising British Rail rests on the idea that it is government's job to think through the relationship between rail and road. At this rate, even such matters as the modernisation of the UK's telephone network could become issues of public policy.

If so, there is trouble ahead. In particular, the industry regulators - Ofel, Ofgas and the rest - are already running large in the public consciousness. Their powers are only tolerable because they are specifically limited to questions of competition and efficiency. If responsibility for public policy were added on top, the already vexed question of who regulates the regulators would become clamorous.

Finding a solution would be equally difficult. From the regulatory framework downwards, the whole structure of the privatised utilities expresses the political dogmas of a decade ago. It now seems the dogma may be changing. The structure is not built to change with it, nor was it meant to be. Privatisation enthusiasts everywhere, take note.

This year's vintage is probably our best ever. The nice thing is we've been able to say that nearly every year for 60 years.



## WINE MAKERS' NOTES

Exhibits citrus fruit flavours in a medium-bodied style. Cold fermented for a crisp, yet soft finish. Good with light pasta, poultry, pork and seafood. Acidity 0.59g/100ml, Residual sugar: Dry 0.84g/100ml, pH 3.28. Minimum 6 months in bottle before release.

THE WINES OF Ernest & Julio Gallo.

# How the French fought to save the franc

William Dawkins and David Buchan tell the tale of how the government's financial team managed to thwart the markets

A few yards beneath the helipad on the roof of the high-tech structure that houses the French finance ministry is the office of Mr Thierry Aulagnon, chief adviser to the minister.

Mr Aulagnon, one of the brightest financial brains in the French administration, is at his computer screen, gloomily watching the value of the franc, stuck near the bottom of its permitted rate in the European Monetary System (EMS). The screen tells him that the franc is continuing to wilt under the heaviest speculation on record, despite the large sums being spent on intervention by the Bank of France.

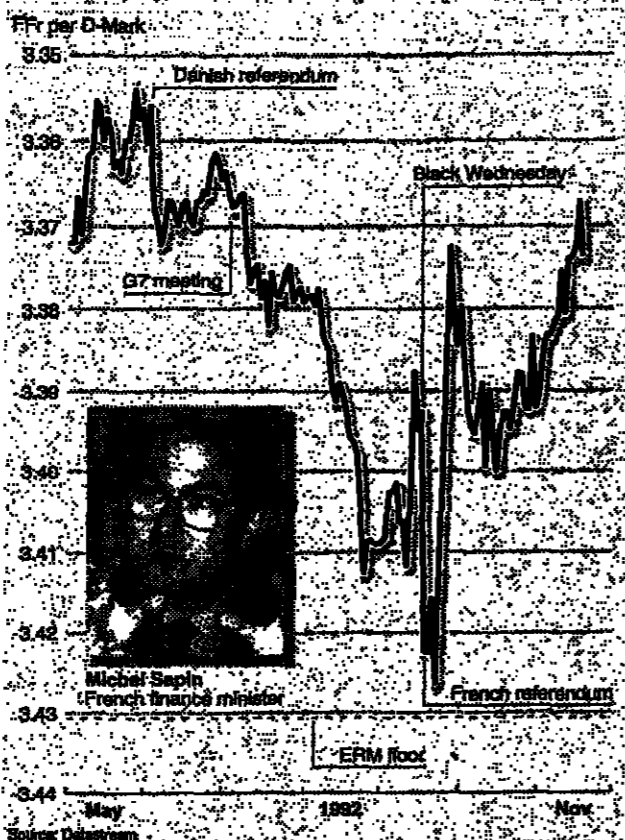
It is late afternoon on Tuesday, September 22, two days after France's narrow vote in favour of European monetary and political union. Mr Aulagnon is aware that failure to turn back the speculators would be a disaster for an already weak government.

Every 15 minutes, the Bank of France telephones to tell Mr Aulagnon that it has bought another billion francs or so of its own currency in an attempt to thwart the speculators. As dealing rooms across the world continue to bet on a devaluation, the screen beeps intermittently, breaking the calm of Mr Aulagnon's carpeted office. "It was my worst moment," he recalls. By the end of the seven-day crisis on September 23, the French central bank had bought FF180bn (\$19.5bn), its biggest-ever intervention.

That Tuesday afternoon, Mr Aulagnon could not have felt more alone. His inexperienced young boss, Mr Michel Sapin, 40, who was promoted from junior justice minister to finance minister only last April, was closed in a Washington hotel room with Mr Jacques de Larosière, governor of the Bank of France, and his German counterparts, Mr Theo Waigel and Mr Helmut Schlesinger. There, they negotiated the Franco-German support for the franc/D-Mark parity that in the end ended the markets. Until then, Mr Sapin's best-known contribution to his country's finances had been his collection of antique coins.

Today, the French government is confident enough to tell the tale of how the battle for the franc was won. Mr Sapin and his team claim they never doubted that they would pull it off. "People told us that the market is always right. But we saw no reason why the franc deserved to be devalued, in terms of economic fundamentals. It was total determination, total - from the finance minister, to the prime minister and the president," says Mr Aulagnon.

## Bucking the markets



But at the time, the markets did not see it that way. Traders found it hard to believe that a currency which was effectively devalued five times in the 1980s could survive unscathed the September currency crisis. So how did the finance ministry keep its head?

Mr Aulagnon recalls that "a shadow fell across the franc" from the moment of the Danish vote against the Maastricht treaty in early June, followed by President François Mitterrand's decision to call a referendum. Throughout July and August, it weakened steadily

**'A shadow fell across the franc' from the moment of the Danish vote against the Maastricht treaty in early June**

against the D-Mark. The battle began in earnest at lunchtime on Thursday, September 17, the day after sterling and the lira were forced to leave the exchange rate mechanism of the EMS. Officials expected the franc to be next in the firing line, if only because nobody knew what the result of the referendum would be on the coming Sunday.

In afternoon dealings in Paris and morning trades in New York, the franc's previously gentle decline suddenly accelerated, until it hit

Italian experience," said Mr Aulagnon. Even so, Mr Sapin was worried enough to delay by a nearly a day his departure to Washington for a meeting with the other finance ministers of the Group of Seven leading industrialised nations.

Finally, on Friday evening, he left for the US with Mr Jean-Claude Trichet, director of the Treasury, and Mr de Larosière. Mr Aulagnon was left in charge of an emergency team in Paris. Over the Atlantic, the trio prepared plans for defending the franc in the

event of a No or a narrow Yes in the Sunday referendum. In either case, German political support would be needed.

By Sunday afternoon Washington time, Mr Aulagnon was able to relay to Mr Sapin that the French result was a narrow Yes and that the franc was therefore likely to come under worse attack. Mr Sapin and Mr de Larosière opened negotiations with their German counterparts the next day.

Back in Paris, Mr Aulagnon was surprised as the franc, contrary to expectations, recovered against the D-Mark to FF3.3650 in off-market trading on Sunday night. But by Monday morning, his worse expectations turned out to be true and the franc slammed back down to FF3.4250.

Chaos broke out on the markets for the next two days, while the Franco-German teams in Washington finalised - in English, their only common language - the complex details of co-ordinated intervention by their central banks. Meanwhile, the Bank of France continued to hold the fort.

It was not until 2am on September 23, that an exhausted Mr Sapin made it back to the finance ministry in Paris, bearing a Franco-German statement that the franc/D-Mark parity would be defended, and the secret details of a public promise by the Bank of France and the Bundesbank to intervene "massively". Mr Sapin went into a two-hour meeting with Mr Aulagnon's team, at which they discussed how to present the deal.

At 8.15am a rise in French official interest rates flashed across the Reuters screens, followed five minutes later by the joint statement. At 8.30am Mr Sapin announced the deal. The finance ministry held its breath as the Bundesbank began, for the first time, to intervene. It was not until the afternoon that Paris received its reward, as the franc started to recover, to FF3.40 in early New York trading. The rise prompted relief in the French finance ministry.

"Since then, things have gone on improving," says Mr Aulagnon. At that moment, his screen beeps from the other side of the room. Mr Aulagnon saunters over to check, with an air of perhaps overstudied calm. "I always thought we would win," he repeats. "But even so, I wouldn't want to go through that again."

Mr Aulagnon may get his wish. But the continuing turbulence on the foreign exchange markets, which yesterday saw the franc fall to FF3.38, suggests that more battles could lie in wait.

## LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL  
Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

### Impulse for recovery programme

From Sir Arthur Knight.

Sir, In a lecture in London on November 11, Rudi Dornbusch of Massachusetts Institute of Technology suggested that in the absence of effective EC-wide policies, Franco-German co-operation offers the best hope of getting "actual decisions"; that issues concerning the former Soviet Union should take priority; and (in response to a question) that as a first step there should be an approach to Moscow.

The object of the approach would be to offer a substantial cash sum (to be provided by the Japanese) in exchange for the return to Japan of the Kurile Islands; firm undertakings (endorsed by the parliament) to act effectively to deal with fiscal and monetary problems; and to get on quickly with privatisation.

That might seem a good way to strengthen the prospects for the "joint recovery programme" of which Edward Mortimer writes (Foreign Affairs, November 18). Apart from political and security considerations, the early consideration of such a programme is surely justified by the impulse to growth which it could provide worldwide at a time when other prospects are lacking?

Arthur Knight,  
Charlton End,  
Singleton,  
Nr Chichester,  
West Sussex PO18 0HX

### Frustrations face those ready to 'seize' business opportunities

From Ms M F A Blackburn.

Sir, I read with a mixture of interest, frustration and total amazement your article ("Major will urge business to seize opportunities", November 16) regarding the direct appeal made by John Major to "British industry and business to seize the opportunities on offer, as the government steps up its efforts to create economic confidence" in his speech at the Lord Mayor's banquet.

My company has recently had a planning application for change of use to A3 - that is,

restaurant - refused because of an objection by the National Rivers Authority on the grounds that "the development would increase unsatisfactory discharges of sewage to the aquatic environment because of the inability of the Heswall Sewage Treatment works and storm sewage overflows to cope satisfactorily with existing flows of sewage to the public system."

Our development would invest some £150,000, employ in excess of 20 full-time people and use the goods and services of local traders.

How is it possible to seize the opportunities on offer when the now privatised Welsh Water's published investment programme for 1990-95 does not include any improvements in this area and, as a consequence, the NRA has a moratorium for the whole of this period on any planning applications? The result is economic stagnation.

Anne Blackburn,  
managing director,  
Fable International,  
Hallside,  
Chelford,  
Knutsford, Cheshire

### Growth of the independent financial adviser

From Mr Kevin McBrien.

Sir, Lex's view ("Tide against agents", November 16) that life company tied agents have caused the biggest headaches in the wake of the last Financial Service Act may well be true of smaller tied agents. However, these need to be differentiated from larger tied agents, such as some of the major building societies.

These larger tied agents have not, as far as I am aware, warranted such criticism from the regulators.

I would also query Lex's statement that "the trend towards direct sales forces shows no signs of slowing". The market share I have before me shows direct sales and home services companies with

a combined share of 46 per cent in 1990 and a very similar 46 per cent at mid-1992 - an undoubtedly considerable contribution to the total market.

Independent financial advisers, however, have seen their business increase substantially and their market share go ahead from 32 per cent to 36 per cent at end-June 1992.

These figures exclude executive and group pensions business for which there is little reliable data, but their inclusion would have emphasised the trend towards independent advice rather than diminished it.

Although my company deals exclusively through indepen-

dent financial advisers, none of the above should be construed as a criticism of properly constituted tied agents or direct sales forces. I believe that each channel, properly controlled, has its own considerable part to play.

But I do not subscribe to the view that the trend towards direct sales forces shows no signs of slowing. It seems on the data that the feature of the last couple of years, if anything, is the growing significance of independent financial advice.

Kevin McBrien,  
general manager,  
National Provident Institution,  
National Provident House,  
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### Kenneth Clarke's message on Bosnian refugees must be reversed

From Ms Sarah Spencer.

Sir, What kind of statement does Kenneth Clarke think he is making to the rest of the world when he denies entry to

Bosnian refugees stranded on the Slovenian border ("Furore grows over Bosnian refugees", November 18); when he requires them to obtain visas, knowing that they cannot reach the towns where consular facilities are available? It can only be that Britain is uncharitable and illiberal, unwilling to shoulder its international responsibilities and share its peace and relative prosperity with those who are

manifestly less fortunate.

No wonder the foreign secretary feels that his authority on the world stage has been undermined.

Of more lasting damage, however, may be the message Mr Clarke is sending to the British people that Britain is for the British, that Bosnian refugees are undesirable, an unacceptable burden, outsiders who should not be allowed to share our way of life.

If Mr Clarke rests his closed door policy on fears of an anti-refugee backlash from the far right then he should be aware that he is playing into their

hands. He cannot counter their arguments by singing their song. The message he projects must be reversed: that refugees need not be a burden but an asset. In the short term they need our help. In the long term, if they stay, they will contribute to the economic prosperity and cultural diversity of our nation as generations of refugees have done before. The German Interior Ministry has belatedly launched a publicity programme of this kind. The Swedish government has for many years provided Swedes with positive information

about people who have moved to live in that country.

The extraordinary humanitarian efforts of agencies like Alert demonstrate a generosity of spirit from which Kenneth Clarke has much to learn. But opening the doors would not be enough. We must tell the British people not only that this is the right course of action for Britain to take but that both internationally and domestically, it is in our interests to do so.

Sarah Spencer,  
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London WC2E 7EA

## OBSERVER

### Out of the frying pan

■ For all the warmth Norman Lamont's Autumn Statement has won him on the Tory backbenches, there are murmurs that he may still be on the slide. Indeed, some say the success itself will make it easier for him to accept a "dignified" transfer.

True, the chancellor will have none of it, telling friends he has a personal assurance from John Major that he's safe in the Treasury. But that has not stopped Westminster's favourite game.

One suggestion is that Lamont could be moved to Defence, still a big job in a Tory government. Malcolm Rifkind would be shifted to the Home Office and Kenneth Clarke would get the keys to 11 Downing Street.

But there are other challengers for the Treasury, among them John MacGregor at Transport, Right-wing Tory MPs - unsure of Major's intentions - have begun actively to promote the candidatures of Michael Howard at Environment, Peter Lilley at Social Security and Michael Portillo, the youthful but fast-rising chief secretary. But there is general agreement that, should the prime minister decide to shake-up his team, he has only until the second weekend in January - that's when the chancellor hosts the traditional Cheneveng meeting, which signals the start of serious planning for the budget.

### Ah so

■ The Japanese have a new word for the state of their economy: *sokobai*. But one place where you won't hear it spoken is Nippon Syntax's immunological research centre

north of Tokyo - staff there must use the translation "crawling along the bottom". The reason is that the pharmaceutical group has banned the use of Japanese at the centre, making English its official language instead. "We've visited by researchers from all over the world," explains a spokesman, "and we want them to feel at home."

### Inquest

■ Now more than ever, the founders of a company can't be too careful when choosing its name. Take for instance Penna, the title redundancy consultants Sanders and Sidney picked last year when renaming their quoted holding company.

Checking on what it had been up to lately, a colleague consulted the FT's computer database. Up came lurid tales of suicides, fire deaths and drug overdoses.

The inquest shows that a certain totally unrelated Colin Penna is a corner in north-east England.

### Newcastle bound

■ Sunderland on the River Wear, has long been engaged in rivalry with neighbouring Tyne-side. The dispute has normally centred on football but now Wear-side have a new reason to feel a little sore about their rivals on the Tyne.

Nissan's announcement yesterday that it is moving the export of its Sunderland-made Primers and Micras from Teesside to the Port of Tyne, rather than the port of Sunderland, is a matter of some regret for Wear-side, but not entirely unexpected.

Much more wounding is the realisation that this means Nissan's newest car-carrying ship, named City of



"He's bottom of the class in the school at the bottom of the league"

Sunderland only this month in honour of the city where Nissan's UK car plant is based, will from 1994 be playing in and out of the Tyne, bearing Sunderland-made cars.

Nissan, however, is aware of Wear-side's sensitivities about the neighbouring Geordies. "It won't go to the Port of Tyne before it's visited Sunderland on its maiden voyage," promises a Nissan spokesman.

### Revving up

■ "An ace in the Avvocato's new hand of poker" was how one Italian paper described Giorgio Garuzzo after this week's management shake-up at Fiat.

The "Avvocato" is, of course, Gianni Agnelli, the grand old man of Italian business who steps down from the Fiat presidency in 1994.

Aside from naming his brother Umberto as his successor, the Avvocato has kept everyone guessing as to the future shape of the management team. By being

given the new post of chief operating officer with control over all industrial operation, the 54-year-old Garuzzo has been fingered as the man most likely to take over as chief executive officer from Cesare Romiti.

At 68, Romiti is two years younger than his boss but is expected to leave either with him or before him. Umberto Agnelli at 57 is of a different generation and is personally closer to Garuzzo.

With Fiat since 1976, Garuzzo's career conforms to the classical image of a modern industrial manager in northern Italy. In 1984 he was chosen to run Iveco, the commercial vehicles group.

He joined the "nomenklatura" in 1980 when he was promoted to be president of Fiat Auto, replacing Umberto Agnelli.

### Baht that

■ The real name of Sia Song, the dapper 38-year-old speculator at the centre of this week's turmoil on the Thailand stock market, is Song Watcharachitroj. Sia is a nickname meaning "tycoon", as he reminded everyone by publicly producing ฿10m (\$260,000) in cash for his bail.

It was twice as much as required.

### Tailpiece

■ True to the spirit of Premier Major's citizen's charter, the National Canine Defence League has produced an equivalent spelling out the rights of dogs.

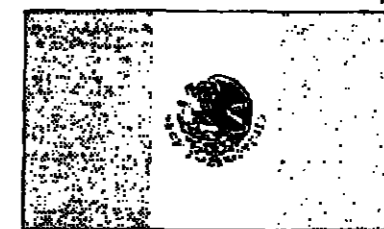
Rail travellers reading it will see its provisions are more in line with what actually happens than British Rail's charter for passengers. One of the boons it bestows on the animals is the right to be neutered.

Philips Dictation Systems, The Crescent, Chichester Business Park, Chichester, Sussex CO4 4TD. Phone 0203-755555, Fax 0203-755666.

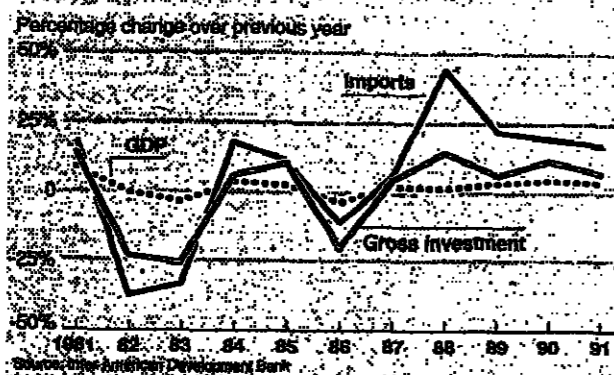


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GDP, imports and investment

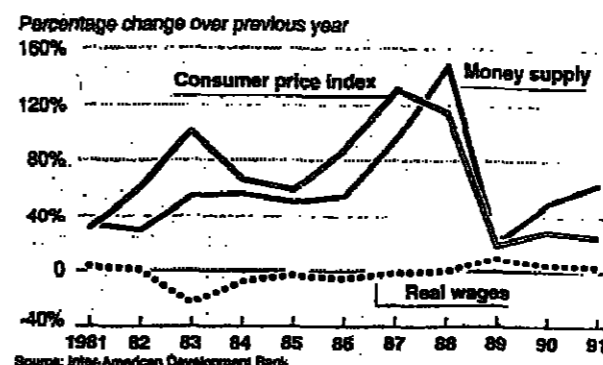


Capital account: non-monetary sector

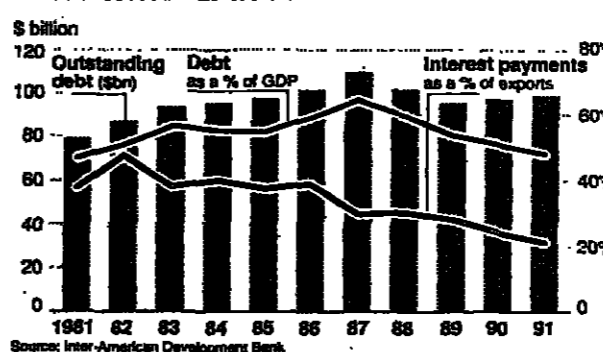


President Salinas: his reforms have transformed an inward-looking economy into a market-responsive one

Money supply, prices and wages



Total external debt



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# Long road to political reform

President Salinas wants a place in history for setting Mexico on the way to long-term growth. But the country is not yet a democracy, nor an industrial powerhouse, writes Stephen Fidler

ACCORDING to Mexican tradition, the power of a Mexican president begins to ebb in the fifth year of his six-year term. Often his popularity begins to weaken. In some cases the president makes a last-ditch desperate bid for popularity or for a place in history.

President Carlos Salinas, who underlined this month his government's commitment to fiscal austerity for the coming year, does not come across as someone likely to buy popularity for himself at the longer-term expense of the country. But he wants his place in history as the man whose bold reform programme set Mexico on the road to long-term growth. Building on the changes set in train by his predecessor, President Miguel de la Madrid, the Salinas economic reforms have changed Mexico from an inward-looking economy dominated by government subsidy to an open, more market-responsive one.

The reforms are widely viewed as a model for others.

Economic policy has been consistent, well-designed and well-executed. It has confronted difficult issues such as the reform of agriculture. Though highly conservative fiscally, the government says its policy has allowed it to increase social expenditures significantly. Yet inevitably, because such things take time, the economy is still adjusting to the reform process, while the country's political system has yet to accommodate its implications. The glue that held the old corporatist system together has been irretrievably loosened, but there is no clear vision yet of what will replace it. Mexico is not yet a democracy, neither

is it a manufacturing powerhouse. Mexico may become both of these things, but the passage between where the country stands today and these two desirable objectives may be less than smooth. This possibility has been brought home to the government over the last year on both the political and economic fronts.

Mr Salinas has long given the impression that his vision of the way forward for Mexico's economy is clearer than his idea for the country's political future. But protests, led by the left of centre Party of Democratic Revolution, following elections for a handful of state governorships this

year, have pushed political reform to the front of his agenda. The protests forced the resignations of governors from the ruling Institutional Revolutionary Party (PRI) after what is widely held to have been presidential intervention. From the government's point of view, the protests and resignations have had several undesirable consequences: they have weakened the credibility of the political system, weakened the PRI internally and increased dissatisfaction with Mr Salinas within the party, and they have provided the PRD with a way of gaining political influence without winning votes.

The government had already, in its earlier reforms, improved the electoral processes. The further reform that it plans to pass into law in the second quarter of next year will attempt to reduce the electoral bias in favour of the PRI that arises partly out of its ability heavily to outspend its opponents. The opposition will agree to this, but Mr Salinas may be worried about again alienating the PRI. He says he wants further reform of the ruling party, but clearly he also wants to avoid so weakening it that there is a risk it might lose the 1994 presidential election. "The PRI is in very bad shape and the problem is not

just cosmetic. The political system is not working for anybody any more," says Mr Rolando Cordera, a political analyst. According to Mr Salinas, the process of reforming the PRI "hasn't finished and will have to go further". The party needed to produce political proposals and an ideology, so that people would know what it stood for. Internal restructuring of a 50-year-old organisation was necessary, the way the party financed itself had to be transformed; and there needed to be advances in the way candidates were chosen. However, in spite of the party's internal strife, Mr Cordera believes the PRI candidate will

win the 1994 election. "The PRI is not ready or willing to lose the next presidential election and I think they are not going to lose it unless they face a very profound internal crisis," he argues. Mr Luis Alvarez, president of the National Action Party (PAN) agrees, if for different reasons. "If the process were truly democratic, we'd be able to win in 1994. But I think in 2000, it's a practical possibility." On the economic front, a sharp rise in the current account deficit, caused in part by strong pent-up demand for imports after a decade of austerity, has provided a cause for government concern. It has raised questions about the

capacity of the economy to sustain significant per capita growth without sucking in unsustainable levels of imports. This year, to ensure a continued flow of finance into the country, the government was forced to push up interest rates, thereby slowing growth. To many economists, the size of the deficit - equivalent to 5 per cent of GDP this year - strongly emphasised the need for further structural reform in the Mexican economy. While the government has continued to emphasise fiscal stringency - it is predicting another government surplus next year - this has not been sufficient by itself to make the economy competitive. "The government has done well in public finances, and a good job, by and large, on privatisation, but on deregulating the economy there are a tremendous number of things still to be done," says Mr Jonathan Heath, chief economist at

Continued on Page 6

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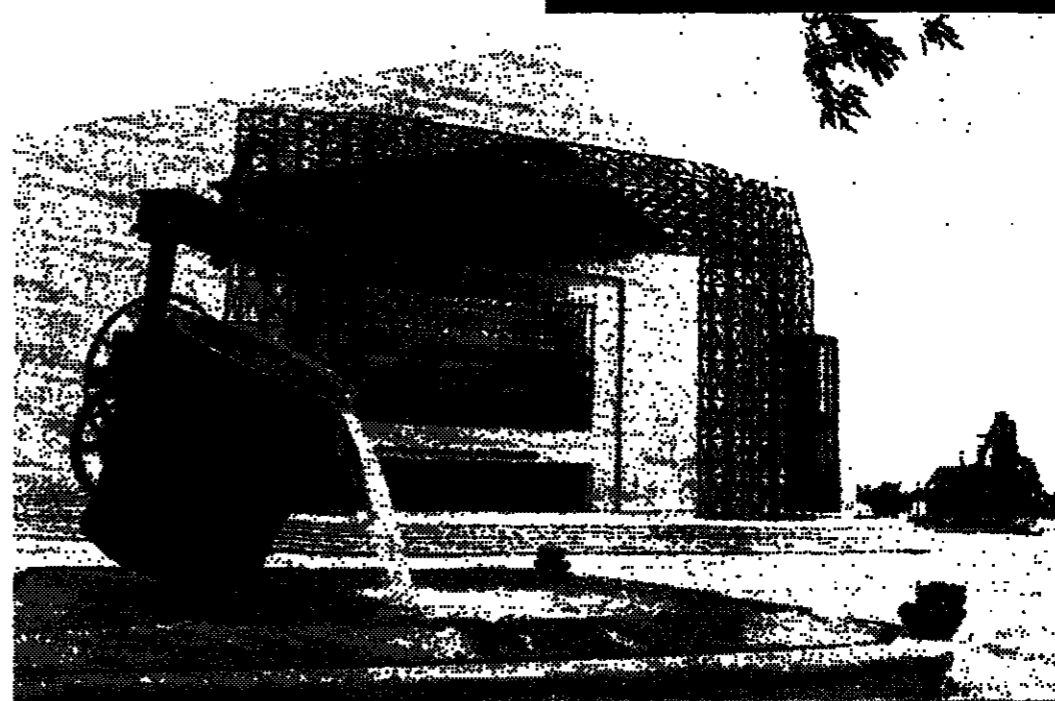
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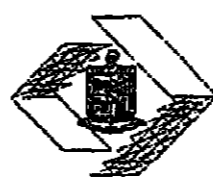


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## MEXICO 2

Stephen Fidler says that 1993 will put the Salinas economic policies to the test

## Deficit sends warning signal

THE COMING year will provide a severe test for the economic policies of the Salinas administration. With two years of the presidency of Mr Carlos Salinas left to run, the euphoria over Mexico's profound economic reforms has begun to abate. Economic growth has slowed and a more sober vision of the future has settled over financial markets and business.

The warning signal has been raised by a current account deficit significantly exceeding the government's earlier forecasts. Extraordinary measures - including deliberately contrived customs delays at the border - may keep the deficit this year just below \$20bn, at 6 per cent of gross domestic product, compared with \$13.3bn in 1991.

The government's arguments about why this should not matter are well rehearsed: its budget surplus means that the deficit is entirely a private sector phenomenon; that big inflows of capital are driving the current account deficit, not the other way round; and that much of the deficit is due to imports of capital goods which will eventually expand the economy's productive capacity.

While these arguments were largely accepted in 1991 as reserves expanded because of big capital inflows, the 1992 capital influx has appeared more uncertain.

"Last year, the government could argue that the current account was caused by big capital inflows. That doesn't explain why the current account deficit this year will be significantly higher than last year's, while capital inflows have been more hesitant," says Mr Jonathan Heath, head of Macro Asesoría Económica, an economic forecasting group in Mexico City.

Some government officials now admit that the sustainability of the financing is an issue. In the end, the capital account surplus will by definition equal the current account deficit, adjusted for changes in reserves. But given that a substantial portion of the capital inflows are short-term in nature, a sharp loss of confidence for whatever reason would trigger outflows of funds and risk economic dislocation until a new balance of payments equilibrium is found.

"The current account deficit is of concern to us because it is of concern to the financial markets," says one official. The government calmed one such

bout of financial uncertainty last month by a shift in exchange rate policy.

Over time, the new policy will widen the band of possible valuations of the peso against the US dollar. Prior to October, the maximum rate of daily devaluation had been 20 centavos a day, an annual 2.3 per cent. The new policy doubled the maximum possible rate of devaluation, but left the ceiling

on the peso's value unchanged at 3,066 to the dollar.

The band of possible values for the peso will thus widen to just over 9 per cent if the same policy is in place by the end of next year, from about 3.5 per cent now.

The aim is partly to increase the uncertainty facing speculators, and to encourage them to invest in longer-term instruments. The minimal fluctua-

tions of the peso encouraged speculators to borrow at low interest rates in dollars to lend them at much higher rates in pesos.

A senior government official says that the new policy does not rule out the eventual possibility of moving to a fixed exchange rate. "This formula does not prohibit the fixing of the currency. The options are all still open."

The change should ease concerns about the effect of an overvalued currency on Mexican competitiveness, though it will not erase them. Mr Heath reckons it will halt the erosion of competitiveness: the maximum devaluation rate for the currency is just about equal to the difference between expected US inflation and his forecast for Mexico (7.6 per cent in 1993 against his expectation of 11.9 per cent this year). Productivity growth should then start to reduce the extent of the overvaluation.

If productivity is the key to future balance in the economy, then it is widely accepted that further deregulation is the key to expanding productivity.

Opinions about how far such further deregulation is necessary vary. Some economists, such as Mr Rogelio Ramírez de la O, who runs a corporate economic consultancy, believe it has to be drastic. "I don't think the supply side of the Mexican economy can support a 4 per cent growth over a long period with sustainable current account deficits," he says.

The economy is thus doomed to stop-go policies unless the government buys time to improve the supply side by allowing the aggressive sale of domestic assets to foreign companies. To do this, it would



have to open up the still significant areas of the economy in which foreign investment is restricted.

The government sees no such sharp dilemma, in part because of a belief that import growth will abate as the

for example, in the country's labour laws which forbid a reduction in nominal wages unless there is a business emergency. "We have inflation inertia in Mexico: wage settlements have been too high for inflation to fall faster," says

bank independent.

The concern about wage inflation has been partly addressed in the latest *pacto* - the annual accord between the government, business and the trade unions which has been set every year since 1987. The October accord, which included the shift in exchange rate policy, contained a commitment that contractual wage awards should be limited to single digits in the coming year. Previous *pactos* had addressed only minimum wages.

This provided significant support for the government's single-digit inflation target for the coming year. "It's impossible to understand Mexican economic policy without understanding the importance of the *pacto*," says Mr Angel Gurría, undersecretary for interna-

tional financial affairs in the Ministry of Finance.

As part of the consensus building, senior government officials meet business and union leaders every Thursday to discuss issues ranging from the competitive problems facing the machine tools industry to increases in the price of health care.

Hopes in the longer term for investment - and in particular for the stable, long-term direct investment most needed by the Mexican economy - hang on the ratification of the North American Free Trade Agreement, negotiated last year with the US and Canada.

Despite the change in administration in the US, the odds are still heavily in favour of its ratification, if only because failure to do so would so damage the Mexican economy that it would have important ramifications for its northern neighbour. In the meantime, however, the close scrutiny of NAFTA in the US Congress could prove unsettling in Mexico.

In the longer term too, the government needs, as the Organisation for Economic Co-operation and Development pointed out in its first report on the country this year, to increase savings. "Unless the national saving ratio recovers, investment may... have to be scaled back," it said.

For the year ahead, however, the government underlined in the annual budget that there would be no dash for growth. The government plans to run a budget surplus of 1.7 per cent of GDP next year, and expects growth to be a sluggish 3 per cent and inflation 7 per cent. This year growth is forecast at 2.7 per cent, and inflation at 11 per cent.

Provided that in 1994 the economy is growing faster and inflation is under control, Mr Salinas will not mind. Such is the economic backdrop he needs for the presidential elections which, one way or another, will provide the ultimate verdict on his reform programme.

## KEY FACTS

Area	1,972,545 sq km
Population	87.8 million (1991 estimate)
Head of State	President Carlos Salinas de Gortari
Currency	Peso (Ps)
Average Exchange Rate	1990 \$1 = Ps2,613, 1991 \$1 = Ps3,018
Exchange Rate, November 12 1992	\$1 = Ps3,116 \$1 = Ps4,739

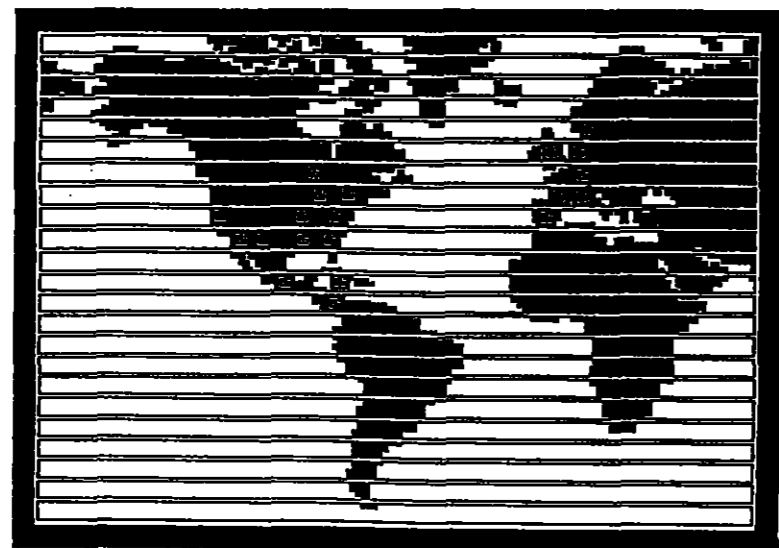
ECONOMY	1990	1991
Total GDP (\$bn)	241.4	282.5
Real GDP growth (% pa)	4.4	3.6
GDP per capita (\$)	2,302	3,216
Components of GDP (%)		
Private Consumption	65.0	
Government Consumption	17.3	
Exports	17.9	
Imports	-11.2	
Agriculture as % of GDP	8.9	n.a.
Consumer prices (% change pa)	25.7	22.7
Ind. wage rates (% change pa)	30.5	29.1
Ind. production (% change pa)	4.9	3.9
Reserves minus gold (\$bn, Dec)	9.9	17.7
Narrow Money growth (% pa)	63.1	123.9
Broad Money growth (% pa)	75.6	49.3
FT-A index (% change over year)	+97.1	+145.1
Total external debt (\$bn, Dec)	99.7	104.1
Debt service ratio (%)	29.0	n.a.
Current Account Balance (\$bn)	-7.1	-19.3
Exports (\$bn)	26.8	27.1
Imports (\$bn)	31.3	36.2
Trade Balance (\$bn)	-4.4	-11.1
Main Trading Partners (1991, % by value)		
US	69.7	65.2
Japan	5.8	5.3
Spain	4.2	1.5
France	2.2	2.5
Canada	2.1	2.1
Germany	2.1	6.1

DEVELOPMENT INDICATORS	15-20 yrs ago	latest estimate
Dependency ratio*	49.9	41.0
Urban population (% of total)	62.8	72.6
Population growth rate (% pa)	3.0	1.9
Infant mortality (per 1,000 births)	63.8	39.2
Adult illiteracy (% aged 15+)	n.a.	12.7
Life expectancy (years)	64.3	69.7

\* = % of population aged under 14 or over 65  
Sources: IMF, World Bank, Datastream, Economist Intelligence Unit.

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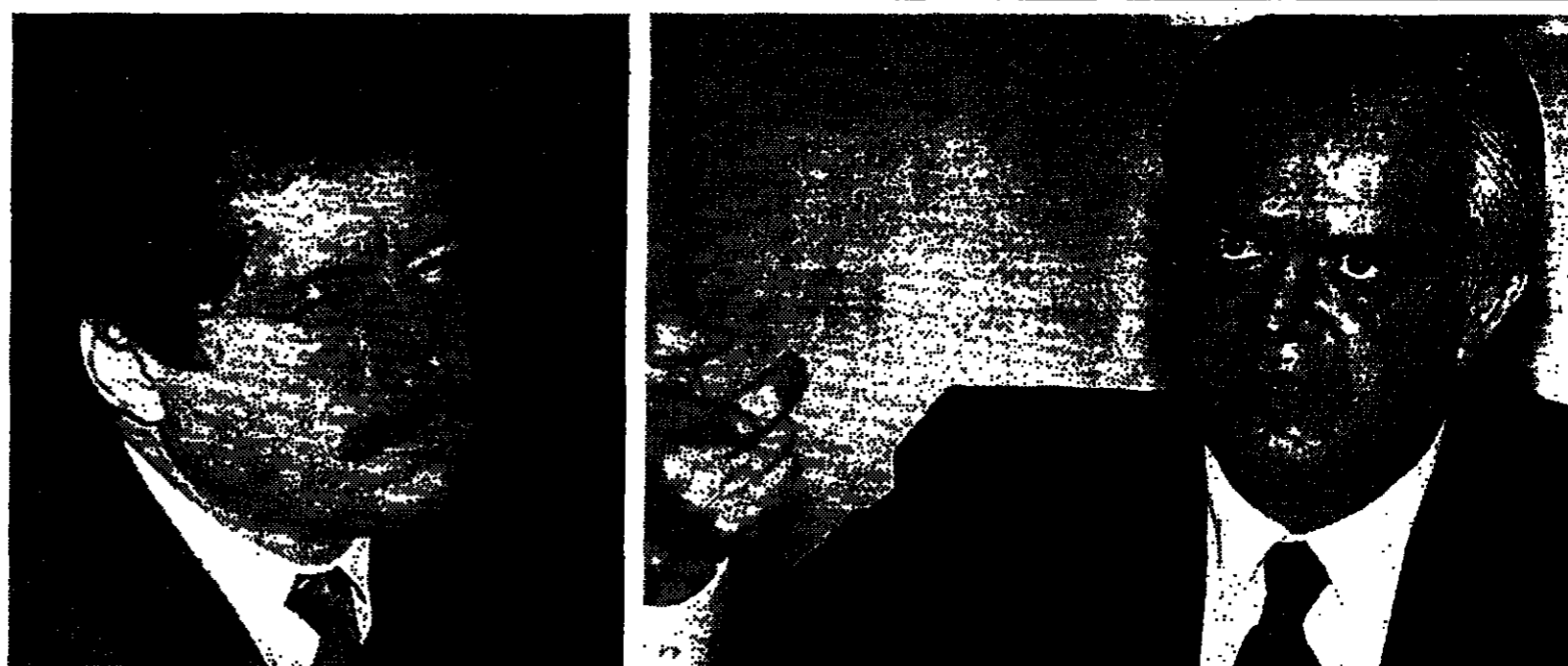
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El arte de ganar



Two of the four main contenders to succeed President Salinas in 1994: Donald Colosio, the social development minister (left) and Pedro Aspe, the finance minister

## The race to succeed President Salinas

## Four men wait for a finger to point...

THE race to succeed President Carlos Salinas started a few days after he was elected in 1988. But with just two more years left of his presidency, competition is heating up for the *dedazo* - the "pointing of the finger" that describes figuratively the president's hand-picking of his successor, writes Stephen Fidler.

There are few doubts that President Salinas, like his predecessors, will have the final say in choosing the candidate for his Institutional Revolutionary Party (PRI) and that his choice will win the 1994 election. The *dedazo* is likely to be made late next year, though Mr Salinas may wish to postpone it to early in 1994.

Most money is on four contenders: Mr Pedro Aspe, the finance minister; Mr Manuel Camacho, the mayor of Mexico City; Mr Donald Colosio, the social development minister; and Mr Ernesto Zedillo, the education minister. But the president may promote others - such as Mr Fernando Gutiérrez Barrios, the interior minister and Mr Emilio Camba, the social security minister - to increase the competition and put pressure on better-placed rivals.

## Pedro Aspe

The fortunes of Mr Aspe, 42, are tied to the economy which he manages. If it is in bad shape, that would reflect badly on him as finance minister, and would draw attention to the political experience and sensitivities that Mr Aspe is seen to lack.

But if the economy picks up, he stands a good chance. He is the presumed favourite of the international finance community, businessmen, the Catholic church, and perhaps disaffected followers of the opposition National Action Party (PAN). In his four years as finance minister, he has barely put a foot wrong, engineering a successful reduction in inflation, privatisations, pension fund and fiscal reforms.

Mr Aspe has a PhD in economics from Massachusetts Institute of Technology, and is

the technocrat's technocrat. There is nothing he likes more than to take out pencil and paper and explain why Mexico's current account deficit is self-financing. He speaks almost perfect English, is courteous and charming, and has successfully forged alliances with some old-style politicians, such as the agriculture and labour minister.

But the general consensus is he would be a better president than a presidential candidate. He is aristocratic, slightly aloof, and no favourite

of the party faithful, who fear he is too much of an economic fundamentalist. If elected president, he would pursue further economic and structural reform with energy and determination.

**Donald Colosio**  
The only contender to have held elected office, Mr Colosio, also 42, is seen as the compromise choice. From the northern border state of Sinaloa, he is pragmatic and down-to-earth. At weekends he can be seen riding around the village of Tepoztlan on a motorcycle, a typical common touch.

As head of the PRI for three years, he would carry the party vote if nominated. But he is also presumed to share broadly the economic vision of President Carlos Salinas, and worked under him in the Budget ministry in the mid-1980s.

He has a master's degree in urban planning from the University of Pennsylvania. He scored points for managing the party's convincing victory in the 1981 elections, and is seen as a capable administrator. The head of the Social Development ministry, he has the enviable task of managing the National Solidarity programme, a \$2bn-\$3bn a year anti-poverty project. He travels with the president on his solidarity tours, and may receive the implicit support of local Solidarity committees across the country.

However, very little is known about what he thinks, and he may lack the ideological vision that has characterised the Salinas presidency. He is not as sharp or articulate as some of his rivals, and is likely to be more dependent on advice when deciding policy.

He has also made his share of errors, deciding for example to select a wealthy pig farmer, Mr Eduardo Villaseñor, as the PRI candidate for the recent governorship elections in Michoacan. Mr Villaseñor was later forced to stand down.

As president, Mr Colosio would probably proceed cautiously with economic and political reform, wary of upsetting too many vested interests.

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was budget minister until last year. In that post he revealed an unwavering zeal in his campaign to cut unnecessary spending, leading some to complain he lacked compassion and political "savvy". He is a strong economic reformer, but unlike Mr Aspe, from middle-class origins. Perhaps this may make him more palatable to the Mexican public.

But his political inexperience came to light this year in a row about new school history textbooks. A controversy over flattering references to Mr Salinas was invited.

But Mr Camacho has presided over important reforms in Mexico City's finances, is striving to change the city's political structure, and has restored the fortunes of the PRI. In 1981, the PRI won 45 per cent of the vote, from 28 per cent in 1988. He has shown great aplomb in defusing potentially violent clashes.

If elected, he is likely to concentrate on reducing income inequalities, and bring the PRI back into the political fold. He favours more political reform.

Much can happen over the next year to shape the president's thinking and how he analyses the country's priorities to the end of the century. If he is convinced that the No 1 issue is further structural reform in the economy, Mr Aspe's stock would rise. If his main worry is disension in the PRI, Mr Colosio's chances would improve. If he believes it is time for conciliation within the country or if he becomes concerned about its governability, Mr Camacho might find himself in the frame.

The fact is, though, that nobody except the president knows what is in his mind. Furthermore, favourite contenders have a habit of losing out. Fascinating though it is, discussion of the *dedazo* is - as one Mexican writer has pointed out - one of Mexico's most useless subjects.

His political and administrative skills will be tested by Mexico's education reforms, which give the states authority for secondary and primary education. Even if it does not make it to the presidency in 1994, he is likely to be given a good cabinet position, setting him up for the year 2000.

**Manuel Camacho**  
The mayor of Mexico City, Mr Camacho, 46, is personally close to President Salinas and a key adviser on political and electoral matters. Mr Camacho has argued strongly for reconciliation with the left-wing Party of Democratic Revolution, and has had a hand in

Reform outline Salin

## MEXICO 3

Stephen Fidler on prospects for exporters

# Advantage of being near US

THE Mexican government has moved a long way to improve conditions for Mexican exporters, not least through its pursuit of a stable macroeconomic policy. But there is wide agreement that further improvements in the country's economic structure are needed.

The need for further action by both government and the private sector is underlined by this year's report from the Organisation for Economic Co-operation and Development. It comments: "Observers judge the quality of Mexican products as comparable with the bottom end of OECD countries and falling short of the standards achieved by the Dynamic Asian Economies."

Some of the problems associ-

ated with doing business in Mexico are well-known: poor transport infrastructure, in particular the railways and difficult telecommunications, although deregulation has allowed larger companies to surmount some of these problems, by allowing them, for example, to install their own satellite telecommunications systems. High labour turnover rates - in some *maquiladora* industries reaching 100 per cent a year - are also often cited as a problem.

However, it is clear that manufacturers' experience is varied. As the OECD report observes, Mexico has in the past demonstrated its capability to innovate. It cites the glass manufacturer, Vitro, as

one with an international reputation for product improvement and innovation.

Furthermore, the figures suggest exporters are having some success in a difficult market. Until August, manufactured exports grew 7% per cent year-on-year despite the weakness in the economy of the US which buys two-thirds of Mexico's exports.

Mr Andres Speri, head of Mercedes-Benz Mexico, says in the past 18 months his company has been able to reduce labour turnover from 30 per cent of the workforce to below 10 per cent. He has also seen a big jump in productivity. He adds of his new employees: "I've been very surprised by how fast people catch up. Many of them were farmworkers and often they can do the job in two weeks."

The company, which produces trucks for the Mexican market, is to start manufacturing around 1,000 cars a year from next year. Mr Speri says the evidence suggests the quality of products is as high as anywhere.

Most businessmen emphasise the importance of training. Mr Jose de Jesus Valdez, director of petrochemicals at Mexico's Alfa conglomerate says: "If there was a limiting factor, I

would say that we in the petrochemicals industry face a shortage of technical people."

According to Mr Jeffrey Gannon, president of the board of GE de Mexico, a subsidiary of General Electric of the US, in many of its recent investments, which have mainly been outside metropolitan areas on greenfield sites, "we have found the quality and productivity to be better than in many of our plants in the United States and around the world."

Mr Rodrigo Guerra, director general of IBM de Mexico, says the 150 people who provide the intellectual force for its operation give value for money. "They earn \$40,000-50,000 a year, probably 40-50 per cent of what they'd cost in the US, and they are 15-20 per cent more productive than in the US."

In gearing up Mexico's formerly closed economy to export, the North American Free Trade Agreement is expected to play a critical role. One sector where Mexico is expected particularly to benefit is that of textiles, where businessmen say all three NAFTA members will benefit, mainly over their Asian competitors. But Mexico should be a particular beneficiary because wage rates of \$2.20 an hour compare



The nuclear power plant at Laguna Verde was Mexico's first

(photograph by Liba Taylor)

with \$12 in Canada and \$10 in the US.

Mexico is also seen to have a logistical advantage over south-east Asia; its proximity to the US should allow for shorter lead times and therefore more responsiveness to US consumer demand.

In some areas, Mexican business is expected to have a tough time. Small and medium-sized companies may find it hard to compete, particularly with the high current cost of credit in Mexico. Furthermore, many of the old import substi-

tution industries may find it impossible to compete against the US.

Mr Gannon of GE contrasts the success of one of the company's newer products, manufactured in Mexico, with the difficulties that are likely for more traditional plants in Mexico. This year, GE will export \$300m of gas turbines to the US from Mexico which has also added to US employment.

"In the process of creating jobs in Mexico we also created over 2,000 jobs in the US supplying the materials and components.

But he goes on: "There are other businesses created 50 or 60 years ago principally for the Mexican market; they are not as competitive and we will have to rationalise manufacturing in these." In areas such as light bulbs, for example, there might be economies of scale of 100:1 to the US advantage.

As a rule of thumb, in areas where there is global excess capacity, the Mexican industry is unlikely to survive. "We'll have rationalisation of manufacturing in both directions,"

Mr Gannon says.

Mr Speri of Mercedes-Benz agrees. His company's decision to begin modest car production in Mexico was made easier by NAFTA, which gave the company the strategic option of selling into the US market from Mexico. Though no decision had been made to exercise the option, it existed nonetheless. In the future, there was the possibility of regional specialisation in its US and Mexican truck operations. "You can't think about different regions, because now it's one."

## POLITICS

## Reform plan outlined by Salinas

THE PAST electoral year has been difficult, even turbulent, one for Mexico's Institutional Revolutionary Party. The ruling party lost the gubernatorial election in Chihuahua and municipal elections in Baja California. Even worse, its sitting governors in Tabasco, Jalisco and Michoacan resigned under intense opposition pressure.

The resignations followed those last year in Guanajuato and San Luis Potosi after the opposition cried electoral fraud. They brought the number of non-elected interim gov-

**Will Mr Salinas give the party the power to select candidates, including the president?**

ernors appointed by President Salinas since coming to power to 17, out of 31 states. More than half of Mexico is now ruled by unelected governors, or the equivalent.

The routine of election and post-election protests has left almost no-one satisfied, and brought pressure on the government to achieve consensus on the rules of the electoral system, and for political reform. As Mr Sergio Aguayo, a political scientist and president of the Mexican Academy of Human Rights, says: "Elections used to give ritual blessing to the PRI candidate, and were relevant. But now they are becoming irrelevant to resolving political problems."

From the government's perspective, the demonstrations have damaged the credibility of Mexico's electoral process and tarnished the international image of the Salinas presidency. The governors' resignations have divided the rank-and-file of the PRI, and strengthened the opposition.

Four years into his administration, Mr Salinas has set out the government's approach to political reform. He wants to make the PRI a more modern political party, and there will be legislation to make electoral conditions fairer for all political parties.

The president said in an interview that the reform of the PRI "has not finished, it has to go further", echoing the views he gave at a widely publicised breakfast with 650 leaders of the PRI in late October. Then, he made it clear that the old rules had to change, and the party had to abandon past practices. Mr Salinas said the PRI had to change further its internal structure, ideology, candidate selection and finances.

But it remains unclear whether Mr Salinas will give the PRI any power to select candidates, including the president, or any influence on government policy. Without such authority, it is doubtful whether the PRI will become a

modern political party.

In his November state-of-the-union address - a three-point plan for political reform that would set a ceiling on electoral spending, make party finances more transparent, electoral authorities more independent and give fairer access to media - the president said the new electoral legislation would be negotiated between the political parties. It is still uncertain what, if any, agreement will be reached.

Government officials say the legislation will be introduced after April next year. According to one, "they will set the rules of the game for political competition for the 1994 presidential elections". The legislation will give more public money to the parties, and make donations less dependent on their popular vote; establish tight rules on the amounts that individuals and organisations can contribute to campaigns; compel parties to publish party finances; give each political party similar television time; and give parties the right to veto officials from the Federal Electoral Institute.

If the left-wing Party of Democratic Revolution fails to endorse the government-inspired electoral reform, the PRI is likely to settle, as in the past, for agreement with the centre-right Party of National Action. The leadership of the PAN is ready to negotiate with the PRI, in part because it has been a beneficiary of the political reform. It now has three governors, and controls over 100 municipalities.

But the PAN has to tread carefully as nine leading members - including a former presidential candidate - have already resigned from the party because of its pro-govern-

**What the government fears is an opposition unity candidate for the 1994 elections**

ment stance. In an open letter the leaders wrote: "The party has acted not as an opposition party but as one more sector of the system." However, Mr Luis H. Alvarez, president of the PAN, said they resigned in "frustration" at not winning internal votes.

The government is likely to meet practically all the PAN demands, in part to avoid what it fears above all - an opposition unity candidate for the 1994 elections, possibly under the leadership of Mr Jesus Silva Herzog, former finance minister under President Miguel de la Madrid. The PAN has shown no interest in backing such a candidacy in the past, but if negotiations with the PRI were to break down, that could still become a possibility.

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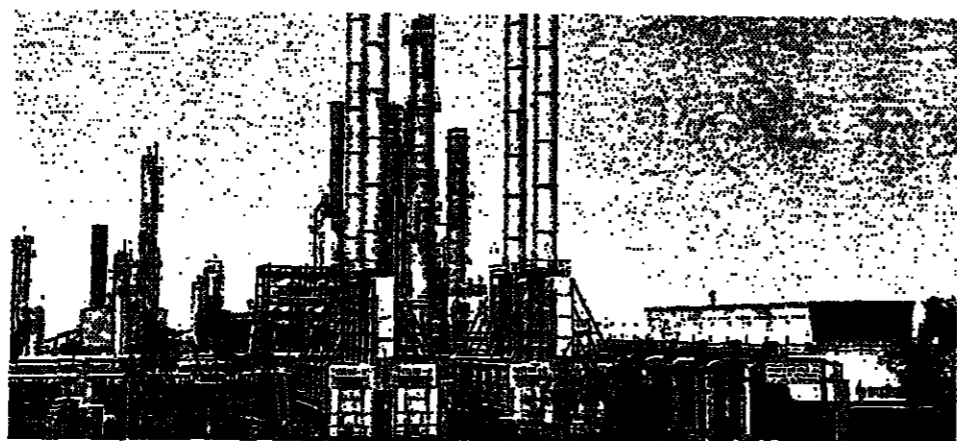
## MEXICO 4

IN THE judgment of Mr Francisco Rojas, who heads Petroleos Mexicanos, one change above all provides the key to the extraordinary transformation that has taken place in the world's fifth largest oil company: labour relations.

When Mr Rojas was put in charge of the company by President Carlos Salinas, the company was dominated by a union and a system that fostered economic inefficiency and corruption. "Without changes in Pemex's labour relations, no other changes would have made sense. That is the fundamental change. The rest are very important issues but they are secondary to our success in changing labour relations," he said this month.

The arrest in the early days of the Salinas administration of the Pemex union boss was a first step in the rapid debilitation of a union which, having once been among the strongest in Mexico, is now among the weakest. The workforce has been cut from 168,000 in 1988 to around 130,000 now and labour contracts have been changed to allow the company much greater flexibility in the way it does business.

However, the lack of openness to competition of Pemex still makes it relatively inefficient. The Organisation for Economic Co-operation and Development, the Paris-based think tank of 24 industrialised countries, points to estimates suggesting efficiency losses at Pemex could still cost more than 1 per cent of Mexico's GDP. "Even if the full privatisation of Pemex is currently not



The Pemex refinery at Tula, Hidalgo

feasible for political reasons, efforts should be made to increase its efficiency. It might, for example, be feasible to decentralise the giant company and privatise those parts for which this is possible under the constitution.

Though it has generally embraced privatisation, the Salinas administration has been unwilling to lift the constitutional impediment to

**The OECD says that efficiency losses at Pemex could still cost more than 1 per cent of Mexico's GDP**

selling Pemex to the private sector. This in part reflects the view that privatisation would weaken the ability of the state to extract the rent due to it from the oil being pumped. Pemex's contribution to public revenues has declined, but it is still substantial - it averaged

26 per cent between 1988 and 1991, compared with 39 per cent between 1983 and 1984. It still accounts for about 30 per cent of export revenues.

Nonetheless, the logic of further opening Pemex's activities to international competition is relentless. Not only does the economy suffer efficiency losses, but at a time of fiscal austerity, it is unlikely that the government would be willing or able to provide Pemex with the kind of investment capital it needs for the optimal development of all its businesses.

If that provided the logic, the explosion in April at Guadalajara - which killed some 200 people and for which Pemex was held responsible -

provided the public support and strengthened the case for a more radical reorganisation of the company. That reorganisation is now under way.

Pemex has been restructured as a corporate holding company with four subsidiaries: exploration and production, refining, gas and basic petrochemicals and petrochemicals. From the start of next year, each of the operating subsidiaries will charge the other international prices for its oil or services, a marked change from the previously attempted system of transfer pricing.

Furthermore, the results for each operating company will be published which should provide greater precision about



A Pemex petrol station in Mexico City

Stephen Fidler on the restructuring of the national oil company

## Pemex is transformed

loss-making and marginally profitable operations. The internal transactions between the company are likely to exceed in total the company's external sales, last year, of \$58.4bn.

There will be a greater willingness to accept private capital. In the coming year, Pemex will put out to tender 22 wells in the Bay of Campeche, though not on a risk-sharing basis. "The market for oil industry services, for drilling, for geology and for oil law, isn't prohibited by our laws. But the change is not a legal change but a change in labour practices. Before, we had to obtain these services through the union and today we can contract out."

Right basic petrochemicals remain reserved to the state. For the rest, "Pemex is going to pursue a series of policies where we will make alliances and co-investments in areas that suit us. We will sell off activities where private initiative can give greater added value. Plants that are not profitable and that cannot be modernised technologically will be closed."

Investment spending by Pemex next year of \$3bn is also likely to be supplemented by off-balance sheet finance for the construction of 150,000 barrels-a-day in extra refinery capacity at Salina Cruz. The company is in the initial stage of seeking a financial adviser for this \$1bn, build-lease-

transfer project which, unlike the more common build-operate-transfer projects, is allowed under the constitution.

In such projects, Pemex says it is benefiting from its joint venture with Shell under which the capacity of the Deer Park refinery in Texas is to be expanded. Mr Ernesto Marcos, corporate director of finance, says: "We are learning a lot about how to do these trans-

**The new tax regime being proposed would allow Pemex to operate as an international oil company**

actions from the Shell deal." Furthermore, the government is also expected to submit to Congress this year a new tax regime for Pemex aimed at allowing it to operate more as the international oil company that Mr Rojas says he wants to create. Currently,

revenue transfers to the government are negotiated yearly based on the company's operating results. The government is unwilling to see its tax take from Pemex drop, but wants to provide more transparency and consistency to its tax regime.

The idea is that Pemex would pay royalties based on the oil it brings out of the ground under a regime with similarities to that operating in the British North Sea. It would then, like any other corporation, pay corporate income tax and profits left over would be paid as dividends to the government. On gasoline sales, Pemex would receive Houston-based prices, with the excess paid at the pump above that going to the government in the form of excise taxes.

Until now, says Mr Rojas, this has been one of Pemex's structural problems. "Pemex cannot analyse itself as a business when its tax structure gives no direction in relation to business."

While Pemex remains closed to competition in important areas, it is unlikely to be able to answer criticisms of its inefficiency convincingly. But senior management recognises that further change in Pemex is inevitable and desirable. Pemex should make greater use of automation and technology, and its international operations need to be strengthened. The private sector should play a greater role in its businesses. If efficiency demands it, Pemex should import. Above all, the philosophy of the entrepreneur must permeate much deeper into the company.

Damian Fraser on the shake-out among the country's banks

## To the victors, the spoils

IT HAS been a tumultuous year for Mexico's 18 banks and 26 brokerages. Having had to deal with privatisation, restructuring and refinancing, they have watched share prices in their share prices in the face of rising interest rates and a slowing economy.

The banks' loan book grew sharply, and those non-performing more than doubled, to reach 3.1 per cent of the total. A handful of banks lost an estimated \$500m after the rise in interest rates slashed the value of the government paper they were holding.

To top this, the government allowed foreigners to compete in the Mexican market. According to the proposed North American free trade agreement (Nafta), foreigners will have up to 8 per cent of market share in 1994, rising to 15 per cent by 2000. Then,

with some safeguards, the market will be free.

The banks' most testing experience has been their privatisation, and the subsequent formation of integrated financial groups, comprising banks and brokerages. The 18 banks were sold for more than \$12bn, an average of 14.75 times earnings and 3.07 times book value. While this was a triumph for the Mexican government, the high price has put acute pressure on the banks to cut costs, raise finance and in many cases redefine their corporate strategies.

Mexican banks have to reach new capital levels of 8 per cent (risk-adjusted) by the start of next year, but many are finding it difficult. Government authorities say they will show leniency to those that are moving in the right direction. For the banks that get it

right, the rewards are high. Mexico is under-banked and under-leveraged, with just one branch per 16,000 people, and credit equal to 6 per cent of GDP. In the US, by contrast, there is one branch per 4,000 people and credit is 63 per cent of GDP. Net margins remain high - at about 6-8 per cent - and in the fast growing retail sector, should stay that way. Few expect foreign banks to enter the retail market in the short term given the high entry costs, with or without Nafta.

The two largest banks, Banamex and Bancomer, account for almost 60 per cent of total assets, and by virtue of their size, management experience and superior technology, are most analysts' favourites to benefit from the expected growth in the financial sector. While Bancomer is Mexico's

leading retail bank, Banamex is the top corporate bank and dominates the capital markets.

Banamex was bought by Accival, Mexico's largest and most successful brokerage, for \$3.2bn in August last year, and the two now form Grupo Financiero Banamex-Accival, or Banacel. The new owners - Mr Roberto Hernandez and Mr Alfredo Harp Helu - have fired or accepted the resignation of the majority of top managers, in a shake-up intended to assert more discipline and central control. Banamex's former managers are now found running Comermer and other smaller banks.

"When we took over this bank, it was seven banks vertically organised. Now it is one horizontal bank, and we have removed four layers of bureaucracy," says Mr Hernandez. Banacel hopes to maintain



A money exchange office in Mexico City

(photograph by Adrian Neville)

its position as Mexico's leading corporate bank, expanding its presence in car loans, mortgages and credit cards, while reducing its personal loans business. Mr Hernandez says his bank has no interest in expanding significantly in the US or Europe, arguing that Banamex "is going to concentrate where we have a competitive advantage."

Banacel's ambitions suffered a blow in June when it was forced to withdraw a \$1.5bn equity offering after steep declines in the Mexican stock market. Its plans to expand bank and brokerage services, the successful financial services company, Bancomer is now Grupo Financiero Bancomer (GFB),

which comprises the bank, the brokerage Abesa, and a leasing and factoring company. The new owners have kept most of the top management and, unlike Banacel, had the good fortune to make their equity offering of \$837m in March, when Mexico's stock market was still hot. While the bank hopes to maintain its leading position in the retail market, it is currently trying to bolster its presence in the corporate segment.

Other banks are struggling to define their market niche. Banca Serfin, the third largest bank, and bought by investors from the brokerage Operadora de Bolsa, has been in some disarray, and in September the

owners fired scores of senior and middle managers. It is paying the price of a rapid and perhaps ill-considered increase in loans over past years.

Comermer, the fifth largest, and bought by investors from Inverlat, is pursuing a pan-Latin American strategy, and has bought brokerages in Colombia, sold a 5 per cent stake to Banco Nova Scotia of Canada, and hopes to form more alliances with financial groups in the US and Latin America. Like other Mexican banks, Comermer is focusing on the retail and middle-level corporate market.

As competition between these and other banks heats up, observers expect a second round of mergers and rationalisation. Foreigners, who so far have limited presence in the occasional small-size strategic stakes, may move in at this point.

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### Equity and bond financings

## Quiet end to year

THE STEADY flow of both equity and bond financings by Mexican companies this year was interrupted by the collapse of the Mexican stock market in June.

Weak stock market conditions put the brakes on several planned equity offerings for companies such as Banamex, the Mexican bank. Several companies then switched planned equity offerings into the bond market, which soon succumbed to a severe bout of indigestion.

Consequently, after a surge of activity in the first half of the year, the market for Mexican debt and equity is ending the year on a quieter note. According to bankers, it is likely to remain on hold until the new year.

After a two-year rally, the Mexican stock market fell 15.5 per cent in June, the sharpest drop since October 1987, but has since recovered some ground. The market rallied strongly on growing confidence that the election of Mr Clinton in the US would not jeopardise the Nafta free trade agreement. Meanwhile, the shift of funding to the bond market has overstretched demand, amid rumours of \$3bn equivalent of funding in the third quarter, according to bankers.

Grupo Dina's recent \$150m five-year deal and Cemex's \$280m seven-year deal are among the offerings which were shifted to the bond market after equity market conditions proved unfavourable. Some companies felt that stock market prices were at an unattractive level for issuance, while other companies, whose stock prices have been performing particularly poorly, found the market closed to them.

The effect of the surge of supply in the bond market has

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Damian Fraser's guide to staying well-informed

## Puzzling figures may be wrong

SINCE Mexico is awash with financial newspapers, magazines, newsletters, government bulletins and press releases, one might think that obtaining accurate and timely information is an easy matter. However, a lot of the material published is of little use or misleadingly presented, while much that would be useful never appears.

First port of call should be the National Institute of Statistics, Geography and Informatics (Inegi), responsible for national accounts and other official statistics. Based in the state of Aguascalientes, it is managed as if it were an autonomous organisation, though it answers to the finance ministry.

Inegi receives praise from international agencies, such as the Organisation for Economic Co-operation and Development, which are impressed by its statistical techniques and professional integrity. It is responsible for producing and disseminating basic economic statistics — quarterly GDP by sector, monthly trade figures, monthly industrial surveys and monthly urban employment surveys. Every 10 years it conducts a general census — the latest is for the period 1990-91 — and every five years a general economic census.

While its information is usually accurate, it is not always accurately reported, in part because press releases that accompany statistics are often extremely misleading. On any given month, it is quite possible Mexican newspapers will report four different trade figures.

Mexican idiosyncrasies also make some figures puzzling. Unemployment is recorded at about 3 per cent, which no-one takes seriously. But this reflects a tight United Nations definition of unemployment — anyone who has worked more than a hour in a week is considered employed.

Lack of unemployment insurance in Mexico means just about everyone finds some

work for an hour. However, Inegi produces about 10 variations of unemployment figures, to account for under-employment not captured by the UN definition.

For these and other reasons it is best to obtain information direct from Inegi. For recent economic figures, information can be received by fax through a new service open to subscribers, known as Infotax (01-800-490595). Alternatively, Inegi will send statistics by modem, or PC-disk.

Inegi's 1990 census offers a rich mine of material. All the population and housing statistics

are available on PC-diskette (and very soon on CD-ROM) at a state, municipality, locality and even by "block" (ie, four or so streets) level.

Armed with the correct PC-disk you can discover the educational attainment of residents, or the number of houses with electricity, running water, sewerage, electricity in any specified block of streets in any Mexican town.

Such information could be used by a local planner deciding where to build a hospital, by businessmen interested in opening a supermarket, by political parties wanting to target probable sympathisers and so on.

After Inegi in importance comes the Bank of Mexico. It produces figures for inflation, foreign reserves (only three times a year), money growth, balance of payments and financial markets.

Like Inegi, the Bank of Mexico has the infuriating habit of not saying publicly and well in advance when its figures are to be released, nor can it then be relied on to stick to the date. It does not even

advise its subscribers when its monthly indicators are ready. The Bank of Mexico has the same source as Inegi for much of its material, and it is a mystery why it is much slower in publishing its figures.

However, government departments and state companies are usually worse than the Bank of Mexico. Perhaps the worst offender is Solidarity programme, an anti-poverty project now under the Ministry of Social Development. While the government is quick to reel off the number of new clinics, schools and homes with potable water that Solidarity has delivered, academics complain there is much less information on inputs, and thus the effectiveness of various parts of the programme.

Mexico's financial newspapers and magazines provide an enough information to overwhelm even the most enthusiastic reader. Since the Mexican press tends to attribute more significance to what important people say than to what has actually happened, much of what is published can be safely ignored. But senior government ministers occasionally drop tantalising hints about the state of the economy in obscure places, so it is usually worth reading their statements.

Perhaps the best source of financial and private sector information is Infotax, the financial wire service owned by the Monterrey newspaper El Norte. This gives real time prices on equity, money and commodity markets and market-related information on the companies and politics as it becomes public. It also provides summaries of the Mexican and international press.

Infotax has nearly 1,000 subscribers, and can be seen in the office of practically every stockbroker, finance director and senior finance ministry official. The main drawback is that with a market as volatile as Mexico's, it becomes compulsive watching, and uses up much of the day.



The Chihuahua Pacifico train at the Canyon de Lobos

(photograph by David Simson)

### THE PRESS

## How the government edits the news

take-off from advertisements placed by their government department of about 10-15 per cent.

However, such practices are not universal. A growing number of Mexican newspapers — El Financiero, a financial city daily, El Norte of Monterrey, El Diario de Yucatán, Zeta in Tijuana, the weekly Proceso and Mira, generally do not take government money, and they criticise with abandon. And as the government retires from large parts of the economy, its ability to control the independent press with the threat to pull advertisements is declining.

But for the vast majority, the practice of receiving government money and self-censorship is common. Naturally, it undermines the objectivity of journalists — if they upset

their department, the cash flow drops off. Few daily reporters in Mexico cover government corruption, or criticise the officials with whom they are in close contact. Such work, if it is done, is assigned to political columnists, who are often following the orders of a political

If newspapers criticise the administration, they get the cold shoulder

rival when they make such attacks.

President Salinas and his government have done little to change such practices, realising how useful they are in maintaining power. Government money continues to subsidise journalists and newspapers, and newspapers that

criticise the administration are given the cold shoulder.

The ministry of finance refuses to advertise in Mexico's main financial newspaper, El Financiero, because it does not like its editorial line. It does not even include it in its daily synthesis of newspaper articles. Until September, the president would not let an El Financiero journalist on his press aeroplane.

Televisa, Mexico's near-monopoly television company, "is like part of the ministry of information," says Mr Raymundo Riva Palacio, an editor of El Financiero, and frequent critic of the government. Televisa almost never reports post-electoral demonstrations, rarely interviews leaders of the opposition, or runs anything embarrassing to the government.

What changes there have been have yet to have much of an effect. The government has ended the monopoly of the state-owned paper company, giving newspapers the right to import their paper. But this in practice has been of limited importance, since cutting off a newspaper's paper supply was much too much a Draconian and public measure of censorship. And most newspapers still buy their paper from the state-run company, one of the few to have escaped privatisation under President Salinas.

In September the government announced that newspapers would have to pay the expenses of covering the president's international trips — up to then all expenses, including entertainment, were paid by the government. A presidential spokesman said "that in a nation of symbols this is important."

On television, the government reckons the imminent privatisation of two state-owned channels will put increasing pressure on Televisa to be more independent in its coverage.

Damian Fraser

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## Damian Fraser explains the Nafta pact

## New era for trade

TWO months ago, in San Antonio, Texas, trade ministers from Mexico, US and Canada formally signed the text of the North American Trade Agreement, concluding 15 months of negotiations. The September 7 treaty, if approved by the countries' legislatures, is likely to mark a profound transformation in Mexico's economy.

For while Mexico is already relatively open to trade, the treaty will almost certainly ensure there is no going back to protection. Almost every Mexican industry now knows it will have to compete with its most efficient North American rivals in order to survive. However compelling the case for special protection, the Mexican government will be prohibited by law from offering it.

At the same time, the treaty gives Mexican exporters full and certain access to the US and Canadian markets, irrespective of protectionist developments in the US. Trade disputes will be settled by special trade panels which, judging by the US-Canada treaty, will be objective and fair in their rulings.

Most significantly, the treaty provides a legal framework for almost all business and trade in Mexico, perhaps for the first time. The thousand pages of text tie the hands of any Mexican government wishing to meddle in the country's economy. Rules over foreign investment, tariffs, quotas, rules of origin, customs regulations, export subsidies, intellectual property, sanitary and anti-dumping measures, technical standards, even driving licences and medical tests of lorry drivers, are precisely laid down for the foreseeable future.

In a country where government policy has swung wildly over the past two decades, and where obedience to laws is often half-hearted, the implementation of such a treaty would herald important social and economic changes. An underdeveloped country with an Hispanic-Indian culture would have to play by the same rules of the game as the US and Canada.

The promise of such rules is intended to attract foreign investment, and above all,

put increasing pressure on Mexican businesses and labour to match the productivity of the US and Canada. Many of the impediments to doing business in Mexico - corruption, over-regulation, outdated labour laws, poor infrastructure - would, hopes the government, gradually be removed. But at the same time, many inefficient Mexican companies - perhaps whole sectors - will go bust.

The treaty has still to be approved by the legislatures in the three countries. The vote in the US, where President-elect Bill Clinton has expressed conditional support, will probably be in the first half of next year. If passed, the agreement will come into effect on January 1, 1994.

In the first year the US will free tariffs

**An underdeveloped country with an Hispanic-Indian culture would have to play by the same rules as the US and Canada**

on 7,300 goods, which last year represented 84 per cent of Mexico's US bound non-oil exports. Many of these already entered free under the General System of Preferences. Mexico will eliminate tariffs on goods equivalent to 41 per cent of its non-oil imports.

In the fifth year the US will free tariffs on another 1,200 products, or 8 per cent of Mexico's US non-oil exports, while Mexico will eliminate tariffs on the equivalent of 18 per cent of goods. In the tenth year the US will liberalise another 7 per cent of Mexico's exports, and Mexico 38 per cent of its US imports. The tariffs on a few sensitive goods, such as sugar, maize and beans, will not be liberalised for 15 years.

The details of the treaty reveal that almost all the significant concessions were made by Mexico, although the US failed to persuade the government to open up the oil industry to foreign investment. Financial sector.

Mexico has agreed to open up 8 per cent

of the banking sector and 10 per cent of securities sector immediately to foreign investment, gradually increasing this to 15 and 20 per cent respectively by the year 2000. During the transition Mexico will apply individual market shares of 1.5 per cent and 4 per cent to banks and securities houses respectively. After that, full national treatment will apply.

**Agriculture.** This consists of three separate bilateral agreements. Mexico and the US will replace all non-tariff barriers with tariff, which will gradually be phased out, and allow roughly one-half of their agricultural trade to go through tariff-free immediately. Mexico will protect maize and beans for 15 years; the US sugar and orange juice for 15 years. The three countries will permit domestic support programmes in agriculture, but work to eliminate export subsidies, and commit themselves not to use marketing standards to discriminate against another country's products.

**Oil.** Mexico's constitutional ban on foreign investment in the oil sector remains. However, Mexico will gradually open up procurement of the state oil and electricity companies to US and Canadian companies and allow US and Canadian companies to sell gas directly to Mexican businesses. It already has reduced the number of basic petrochemicals reserved to the state from 19 to eight.

Mexico will immediately halve its 20 per cent tariff on cars, and cut the remaining 10 per cent gradually, phase out over 10 years the requirement that links imports to a car company's exports, and the rule that forces cars in Mexico to have 38 per cent local content. The US will eliminate its much smaller tariffs, and consider Mexico to be North American for purposes of the Corporate Fuel Efficiency Act.

**Transportation.** US trucks would be able to carry cargo into Mexico by the end of 1993.

The treaty also covers dispute settlement procedures, intellectual property, laws, rules on competition policy and monopolies, the administration of domestic laws that affect bilateral trade, and technical standards. But the agreement does not cover immigration (barring that of professionals), nor provide funds for regions unable to compete.

protection of the environment that it deems appropriate; provides that no Nafta country should lower its health, safety or environmental standards to attract investment; and allows disputes over factual questions on the environment to be resolved by the Nafta trade panels.

Mr Sergio Reyes Lujan, the president of Mexico's official Ecology Institute, says such measures "establish formulas to ensure that free trade is equitable" while respecting national sovereignty. For many Americans, the measures do not go far enough. For example, President-elect Clinton has called for additional parallel environmental accords.

First, environmentalists worry that

US firms would cross the border in search of laxer environmental regulations. Although Nafta explicitly forbids lowering standards to attract investment, it is not clear whether lax enforcement that attracts investment is punishable. A number of US furniture makers have thus moved to Mexico to escape tougher Californian state environmental laws.

A recent report by the US General Accounting Office concluded that none of six maquiladoras (foreign-owned plants) that they audited complied with Mexico's required environmental impact assessment before going ahead with operations.

Second, critics complain that the dispute resolution panels comprise

## Profile: AGUASCALIENTES

## Boom town snags

WHEN Xerox Corporation decided to move its manufacturing plant from Mexico City 10 years ago, the company judged prospective sites by four criteria.

■ Was the new site centrally located - close enough both to Mexico City and the US border?

■ Was there harmony between management and unions?

■ Were there qualified people nearby?

■ Did the state government promote industrial development?

Top of the list in answer to practically all these came Aguascalientes, in the tiny state of the same name. This commercial, industrialised town of 500,000 people is in the very centre of Mexico, almost equidistant from the northern and southern borders, and the Pacific and Atlantic coasts.

Labour relations are the best in Mexico, and there has not been a major strike in 40 years. The city is home to two universities, two technological institutes, and several American and Japanese schools, providing prospective companies with a local skilled workforce. The state government

has practised (for Mexico) an enlightened industrial policy, building homes for new workers, industrial parks for businesses, roads for better communication.

The result is that while most of Mexico stagnated in the 1980s, Aguascalientes boomed. From 1986 to 1991 the state's economy grew by 6.8 per cent a year, against just 2.5 per cent for the country. Industrial production rose by 8 per cent a year. Social indicators - such as literacy, access to potable water and electricity, improved far more rapidly than in the rest of the country.

The boom was fuelled by foreign investment, which increased by an average of 40 per cent a year. Xerox, Nissan, Texas Instruments, Dupont and Hewlett-Packard, among others, moved into the state, and helped exports increase six times from 1986 to 1991.

Nissan has invested around \$1bn in adding to its engine plant an assembly plant with capacity for 120,000 cars that will be inaugurated in December. Next year, Nissan Mexico expects to export

40,000 of these cars to Japan, the first time the company will import foreign-made cars into Japan. While Nissan has had terrible labour relations in its Cuernavaca assembly plant, its engine plant in Aguascalientes has been trouble-free.

Aguascalientes' growth has brought its problems. Compared with poorer neighbours such as Zacatecas or Guanajuato, the town is polluted, noisy and unsafe. The huge demand for labour means the turnover of workers is high, and salaries are higher than elsewhere. There is still a shortage of housing and water. There is still a shortage of employment and growth: now we have to tackle the secondary ones.

Mexico's centralised political system makes this difficult. States have little power to raise money directly. Mr Granados would like to put computers in the state's primary schools, but the federal education budget does not permit it.

While there is some decentralisation in education, for example - Mexico's finance ministry shows no inclination to allow local government to raise money, or decide how it should be spent. Richer states, such as Aguascalientes, inevitably become constrained in their ability to grow.

Damian Fraser

## Political reform

Continued from Page 1

Macro Asesoría Económica, an economic consultancy.

This point is conceded by some government officials, although some of what needs to be done will have to await another administration. Officials say the government is working on proposals to give independence to the central bank and is expected to introduce a significant streamlining of the 1973 foreign investment law, which will open new sectors of the economy to foreign ownership, apart from a small number of industries deemed strategic.

Poor Mexican infrastructure

transportation and ports - severely weakens the economy's competitiveness and will have to be addressed. Restrictive practices in the ports - the average wage of a dockworker is \$1,100 a month - mean that the most important port for Mexican trade is now Houston, Texas.

Reform of the bureaucracy is also seen as necessary, as are sweeping changes to the legal and judicial system, where procedures are unduly lengthy and bribery of judges common. Not only is this necessary to

prevent the widespread abuse of individual rights, but it is also an essential condition for a functioning market economy with enforceable contracts and property rights.

Some finance officials see the need for a reform of the labour laws, which make it impossible to cut nominal wages except in business emergencies. "We have inflation inertia in Mexico. Wage settlements have been too high for inflation to fall faster," says one.

All this is needed to provide the backdrop to improve Mexican productivity, itself the key to economic growth and the alleviation of the extreme poverty which grips a fifth of the population. While Solidarity, the Salinas anti-poverty programme, continues to increase in size and importance, growth will have to be relied on to raise the general standard of living.

Some foreign and local businessmen report positive experiences with respect to the productivity of their own workforces, but these indicators need to become more common. The agricultural and educational reforms of the administration should be steps, over the longer term, towards

achieving these objectives. Another critical element in increasing investment and improving productivity is the North American Free Trade Agreement with the US and Canada. Negotiations on this critical element of the Salinas economic plan now await ratification by legislatures in the three countries.

However, the way forward has been clouded somewhat by the defeat of President George Bush, who has been a strong supporter of Mr Salinas, in the US presidential election this month. President-elect Clinton has praised Mr Salinas and said he supports Nafta in principle but he wants further safeguards with respect to the environment and jobs. Until it is known exactly what Mr Clinton means by this, and until the agreement is ratified by the US Congress, nervousness among Mexican policy-makers will run high.

The coming year, then, is to be a crucial one for the Salinas administration. Three important issues - political reform, the economy and Nafta - will influence heavily the long-term importance of his place in history. They will also largely determine the choice that the president is expected to make in the next year or so about the man he wants to lead Mexico to the next century.

## 'Greenest treaty ever'

WILL Mexico's environment improve with Nafta?

Nafta is nominally about trade, but the debate over the effect it will have on Mexico's environment may help determine whether it is passed by the US Congress, writes Damian Fraser.

The three governments like to argue that Nafta will make Mexico richer and thus more able to afford the kind of environmental protection already in place in the US and Canada. Faster economic growth will enable Mexico to dedicate more resources to improving air quality in

Mexico City, cleaning up the US-Mexican border, and setting aside more land for ecological reserves.

Further, the treaty itself incorporates a number of environmental safeguards, making it, according to Mr Bill Reilly, head of the US Environmental Protection Agency under President Bush, the greenest free trade agreement ever negotiated.

The green language of the treaty would give precedence to international environmental treaties, such as the Montreal accords, over Nafta, let each country choose the level of

# TELEFONOS DE MEXICO PROMOTES THE SUBMARINE CABLE SYSTEM OF FIBER OPTICS COLUMBUS II

500 years ago, three vessels created an invisible bond between Europe and what was not known to be a new continent.

Half a century later, this symbolic bond comes true because of an ambitious telecommunications project promoted by a Latin American Company to join the continent with Europe and the rest of the world through an advanced technology: Fiber Optics.

58 telecommunications companies and 41 countries participate in the construction of the submarine cable system of fiber optics Columbus II, which will improve and increase telephone services between Europe and the rest of the world and fulfill the needs of Mexico and the participating companies until the year 2010.

Telefonos de Mexico is a leading partner in this project along with Telefonica de España, American Telephone and Telegraph, Italy's Italcable, and the Portuguese company Radio Marconi.

The Columbus II project represents a technological leap for Mexico and the participating telecommunication companies of 25 years, which will integrate more regions to the world's fiber optic network that will become the main international telecommunications point for the next century.

The Columbus II system will be 12,200 km. long with a capacity of 23 thousand telephone channels that will transmit 90 thousand calls simultaneously. This represents an increase of 400 percent in capacity and speed compared to those available today. The system will begin its operations in December of 1994 and will cost 400 million dollars.

The fiber optic submarine cable is a system that has a larger capacity than satellites or microwaves, it provides trustworthy and secure communications that are immune to interference. Thanks to the digital technology that allows the cable to operate at a speed of 565 megabits per second per pair of fiber optics.

The system has a durability of 25 years with only 4 faults in the design in this period. The construction of the system will begin in August of 1993, the installation of the cables will conclude in 12 months, then tests will be run for 5 more months to make adjustments. The system will have tying points in Cancun, Mexico; West Palm Beach, U.S.A., Saint Thomas, Virgin Islands; Canary Islands, Spain; Madeira, Portugal and Palermo, Italy. With the Columbus II cable Telmex will enter the global fiber optic network that has world coverage.

The South and Central American countries will have a chance to interconnect themselves when they join the system; it is foreseen that the system will have the capacity to transmit signals with a larger band like video image and allow digital connectivity from point to point and use the digital integrated service network.

Mexican authorities have played an important role by developing a task of promotion and support that have reached substantial achievements. With a broad vision towards the future, the Mexican Government radically transformed the telecommunications structure and opened up the economic possibilities to society.

The dissolution of public companies, like telecommunications have played an important part to modernize the country which include the promotion of new telecommunication technologies like cellular and private communication networks that contribute to the accelerated change that the country is going through.

Today, Mexico faces the challenge to modernize its telecommunications rapidly. Telefonos de Mexico has accomplished an important effort to increase the services and improve the quality of service it provides. The use of digital technology has been generalized, the cellular industry has more than 250 thousand clients in 80 cities in the country, mobile radio telephony communicates rural communities. All this represents an important development for all Mexicans especially those who are in great need of the vital telephone system.

The participation of telecommunication companies that are friends of Mexico demonstrates the faith, trust stability, social peace, and the economic model that will continue the country's development. The existence of economic blocks confirm today more than ever that unity and a common effort among the participating companies will allow their countries to count with high and modern technology and replace the one that is no longer in use in advanced societies.

Telefonos de Mexico is undergoing a full modernization in which the Submarine Cable Systems Columbus II will incorporate advanced technology to increase the quality of service and join efficiently international competition to the telecommunications market.

# LATIN AMERICAN SURVEY PROGRAMME 1992/1993



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## HOME ENTERTAINMENT

SECTION IV

Friday November 20 1992



As in a previous era, an evening at home could become more like an evening at the concert hall or cinema.



Sharp LCD video projectors can produce a picture on a 150-inch screen or even the living room wall. New electronics products are taking the home entertainment experience one notch higher in terms of quality.



A Kodak Photo CD player outputs a picture to a Philips wide-screen TV. The player will also offer CD audio reproduction via the home hi-fi system in addition to playback of photographic quality images on television.

## Science fiction becomes reality

Multimedia, which is the combination of video, photography, animation, data, voice and audio in one medium, is the hottest trend in electronic entertainment today, writes Michiyo Nakamoto

Rapid advances in technology in the latter half of the twentieth century have had a dramatic impact on how people entertain themselves in their free time at home.

The boundaries of home entertainment have widened to encompass a huge array of electronic products ranging from video games and laser disc players to personalised stereos.

In Japan, where trends in consumer electronics are increasingly set, toy-makers report that for the past few years children have shown little interest in bicycles and bats, which can only be used outside. These changes in how we spend our free time, brought about by new technologies and new needs, have had a significant impact on how we relate to one another.

For one thing, the sheer variety of consumer electronic products on offer and the dramatic fall in prices over the years, have made entertainment much more personalised. Instead of one family television set in one corner of the living room and the grand stereo in the other, there will often be two or three television sets in a household and an audio set for each member of the family.

Pioneer captured the trend in one word when it introduced an audio series several years ago with the brand name "Selfie."

But it was Sony which took the concept of personalised entertainment to its extreme when it introduced the Walkman, its portable cassette tape recorder, although strictly speaking this is more often used outside the home.

The spread of video games, which are essentially an interaction between one player and one machine, has now taken the trend to a point of no return.

This self-absorption in a world of science fiction is aggravated, in the minds of many concerned parents, by the difficulty the older generation has in relating to the thrills of shooting green lizards and exploding mushrooms. The world of video games is not of the same order as the world of Mickey Mouse or Winnie the Pooh.

And while parents will always find it difficult to relate to their children at some point, video games - highly popular among children from about the age of five - may be pushing that alienation threshold significantly lower.

The popularity of video games points to another trend that is gathering momentum in the home entertainment market - that of interactivity.

Video games entertain their players by propelling them into another world which they not only observe but can actually interact with.

The immense appeal of video games has shown that, contrary to what the large number of couch potatoes may suggest, many people enjoy active and interactive participation, which conventional forms of in-house entertainment such as television, radio and video, only provide vicariously.

Camcorders, which involve people in the creative process of filming, and sing-along

karaoke systems, also point to the popularity of interactive entertainment.

But the technology that promises to bring out the full potential of interactive entertainment is multimedia.

Multimedia, which is the combination of video, photography, animation, data, voice and audio in one medium, is the hottest trend in electronic entertainment today.

What it provides, apart from the combination of many forms of entertainment in one convenient package, is a superb ability to interact with the material - to alter the visual image, combine different sound tracks with different pictures, move one picture from a scene to elsewhere - much in the same way that computers enable writers to alter vast amounts of writing at the touch of a button.

A good example of how multimedia can be used for interactive home entertainment comes from Philips, the Dutch

electronics group, which has launched a multi-media entertainment system it calls Compact Disc-Interactive (CD-I).

By connecting a CD-I player to the television, players can wander through the vast collection at the Smithsonian Institution in Washington, learn how to play the guitar in lessons complete with slow-motion movement, or test their creative skills in a musical game.

The increasing use of the digital format in consumer electronics is what has brought interactivity into the home and future developments promise to take this interactivity into other realms of entertainment.

So, rather than interact with material that is specifically created for that purpose - such as video games and CD-I titles - we will increasingly be interacting with films and music that have been produced primarily for other purposes.

Sega, the video games

player, has already launched a video game that allows players to make their own music videos using film footage of popular musicians and interact with characters in the recent box-office hit *Batman Returns*.

Continuing work on digital television, and the US decision to adopt a digital advanced television standard, means that we may soon be able to interact with what is on the television screen.

Developments in technology are also at the root of the enormous increase in the choice of entertainment programmes and the improving visual and aural quality of the programmes that are available.

Greater choice in software again means that entertainment becomes more personalised. In addition to choosing what we want to buy or rent at the video store, we will soon be able to choose what we want broadcast into our homes.

For example, digital technology is likely to bring a signif-

icant change to radio broadcasting soon in the form of digital audio broadcast (DAB), which will offer not only the possibility of vastly increased numbers of radio channels available but also the ability to choose the contents and record them in CD-quality sound.

The advent of DAB has prompted the idea of the armchair record shop where consumers could choose to listen to specific tracks from a pre-published catalogue and make perfect digital copies of the music on their recordable digital tapes or discs.

The same idea could be taken further to "video on demand," an idea which has already caught on in the US. Telephone companies, such as Bell Atlantic, have been testing systems for video on demand over the telephone line.

While there are still some regulatory hurdles and, in the case of DAB, industry resistance, technological developments and consumer demand

indicate that things are going in that direction. Pay per view is already widespread in the US and could become more so in Europe in the near future. The picture that these developments draw, and consumer electronics manufacturers would like us to envision, is of an evening at home that is becoming more like an evening at the concert hall or cinema.

High definition television and wide-screen TV are the obvious examples of new products that are taking the home entertainment experience one notch higher in terms of quality - although not necessarily of the quality of programmes.

Eventually, flat-screen TVs and projection TVs are likely to encourage more people to stay home and watch a film rather than go to the cinema. These technological advances aim to replicate as best they can the experiences in life which we define as entertainment: to create something closer to the real thing.

All of which appears to be leading inexorably to a world of virtual reality. And what can be more personalised, more interactive and more close to the real thing than to don a VR helmet and experience the sensation of speeding your way through shooting stars in a runaway spaceship?

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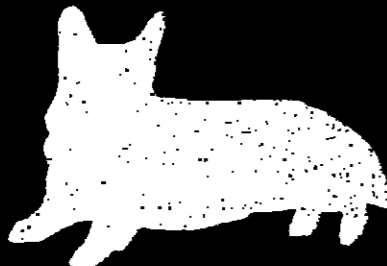
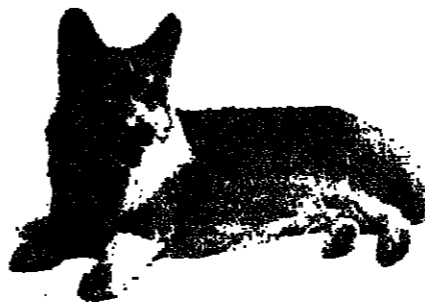
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# PHILIPS

## HOME ENTERTAINMENT 4

## AUDIO

## Two new formats prepare for battle

THE introduction of two new digital audio formats in Europe this autumn has set the stage for another classic consumer electronics battle - this time in the portable audio market.

Since the introduction of the Sony Walkman 13 years ago, the portable audio market has been dominated by the analogue cassette tape. But while Walkman-style personal stereos and other portable cassette players have conditioned consumers to expect go-anywhere, mostly trouble-free music, the digital Compact Disc player has raised sound quality expectations significantly.

In an attempt to provide portability with high definition digital sound quality, new formats such as Sony's Digital Audio Tape (DAT) have been introduced, but have not proved a great commercial success, and standard CD players have been shrunk in size but have mostly proved too sensitive to movement.

So far none of these options has seriously challenged the conventional cassette tape which remains the most popular format for pre-recorded music. Recently, however, there have been some signs that dissatisfaction with the sound quality, durability and appearance of cassette tapes may be growing.

Sales of pre-recorded cassette tapes peaked in 1989 but fell by 11.5 per cent in 1990 and slipped again last year when 1.3bn pre-recorded cassettes were sold worldwide compared to 1.1bn compact discs, according to the London-based International Federation of the Phonographic Industry. This year the IFPI is predicting that compact disc sales will overtake cassette tape sales.

Consumer electronics companies believe that with pre-recorded cassette tape sales slipping, the market for portable audio equipment built around conventional tape players, estimated to be worth nearly \$10bn in the leading industrialised nations alone, could be at risk. This helps to explain the

determined effort which is now underway to define a new digital standard for the portable audio market.

Leading the assault are Philips, the Dutch consumer electronics group, and Japan's Matsushita, with the Digital Compact Cassette (DCC), and Sony with the rival 2.5-inch MiniDisc (MD) - a scaled-down and re-engineered version of the conventional compact disc.

The two new formats have many similarities and technically are fairly well matched. However there are also some significant differences. Both the DCC and the MiniDisc promise to deliver crisp, clear CD-quality portable digital sound, without annoying "sound skipping", the jogs and jumps that can occur with conventional portable CD players.

**The DCC tape and the MiniDisc are both enclosed in protective cases**

Both formats can also be used to record CD-quality sound, although sophisticated electronics have been built into the players to ensure that only one copy of digital source, such as a CD, can be made. An extra track on a DCC tape holds pages of text in a teletext-style form. This can be used to provide a biography of the composer, album title, song title and artist - or even display Karaoke-style synchronised lyrics on a TV screen, or on the LCD display of a remote control.

The DCC tape and the MD are both enclosed in protective cases for easier portability, and both players achieve miniaturisation by using new technology to compress digital data.

Probably the main advantage of DCC equipment is that it can also play a traditional cassette tape, which means the music enthusiast will not have to abandon old cassette tapes. Philips sees DCC as eventually replacing the conventional cassette tape. However, this also

means DCC players will never be smaller than the smallest Walkman-style machine.

Sony's MiniDisc player is smaller, giving it an edge in terms of portability, and has the ability to skip from any one track to another very rapidly, like an ordinary CD. Sony believes this random access feature is something customers want more than backwards compatibility with earlier portable formats - the Japanese group points out that standard CDs have largely replaced the vinyl LP even though the two formats are wholly incompatible.

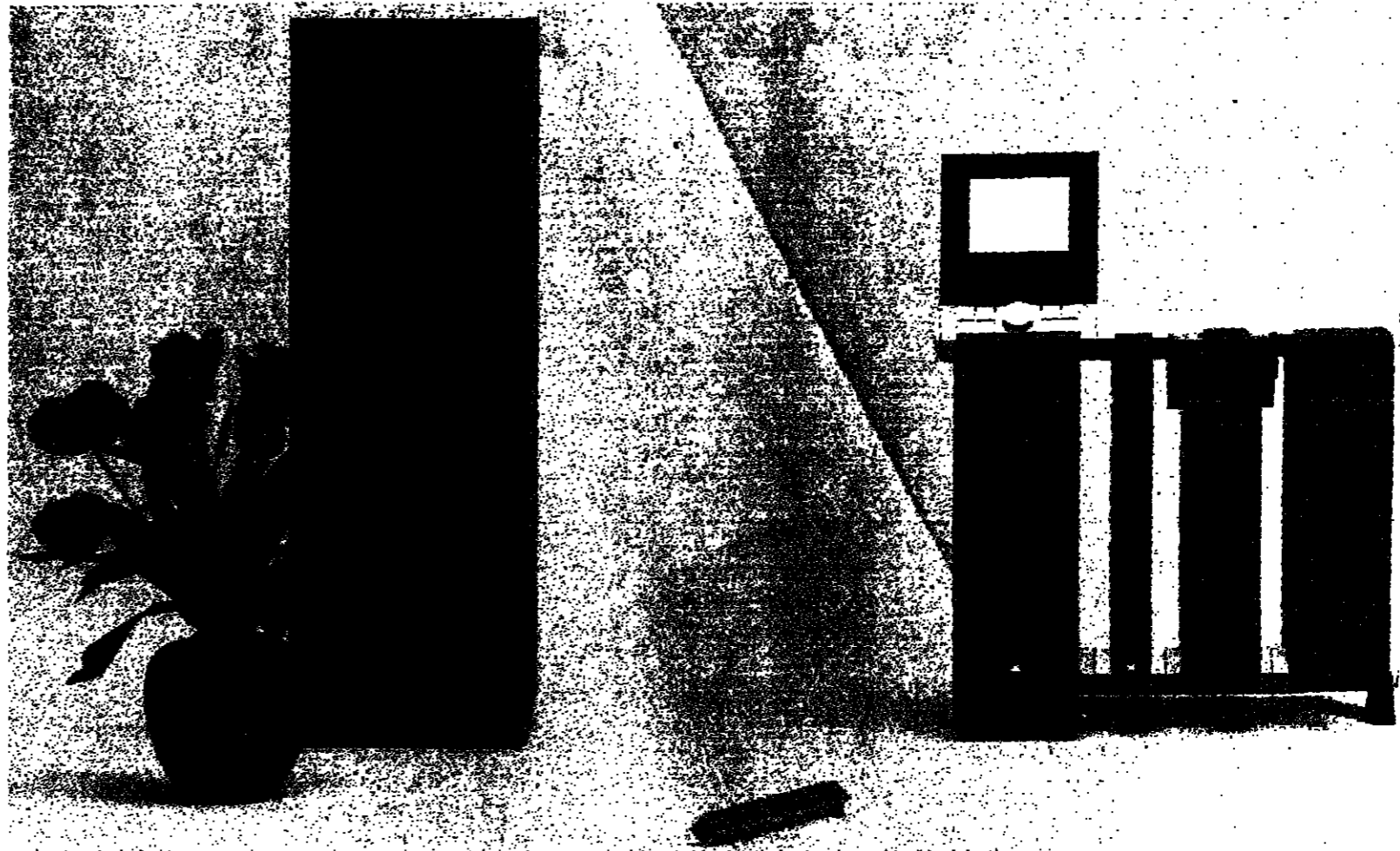
Initially prices for equipment capable of playing the new formats are likely to be considerably higher than those for conventional audio cassette players. But the basic digital technology has been proven and tested in earlier CD players and prices should fall quickly as volumes rise.

Similarly, the new digital tapes and MiniDiscs will retail at prices similar to existing CDs - prices which are themselves coming under increasing scrutiny in Britain.

Sir Bryan Cansberg, the new director-general of Fair Trading, has ordered a fresh investigation into why CD prices in the UK are so high even though an earlier 15-month study undertaken by Sir Bryan's predecessor found no evidence that record companies were breaching competition law.

Some analysts believe the two new digital formats will both be able to coexist, but most within the industry believe that, as with most other consumer electronic devices such as video, there is likely to be only one winner.

Which of the two formats does emerge as the most successful probably depends as much on marketing as anything else. Both DCC and MD offer significant technical advantages over earlier formats but, as Sony's Betamax video format proved a decade ago, technical superiority does not itself guarantee success.



Hi-Fi innovation: Revox's Evolution features DCC technology, has 150 watts output per channel, can be controlled and listened to from any room in the house - and has no wires or buttons

The early availability of "software" in the form of pre-recorded music could also prove critical in the battle for supremacy, and in theory the DCC camp should have had a key advantage because the format was formally launched last month, well ahead of Sony's MD players.

Philips had said there would be about 500 titles ready for the October launch in the UK, but in the event delays meant that, as in Japan, the hardware went on sale before the tapes. Nevertheless, Philips, which is spending \$2m in Britain alone on a pre-Christmas advertising blitz to promote DCC, has forecast that despite the initial hiccup, more than 1,000 titles from most of the big international record companies supporting DCC will be on sale by the end of the year.

For both Philips and Sony, the stakes in the portable digital audio battle have been raised even higher by the business difficulties they currently face. Philips is in the middle of

a group-wide restructuring programme aimed at slimming operations and raising efficiency and profitability while operating profits from Sony's worldwide consumer electronics business fell sharply last year.

Both companies are therefore in dire need of a new hit product. But while the hard-

**DAB has several key advantages over conventional analogue broadcasting**

ware battle between DCC and MC digital formats is likely to dominate the portable consumer electronics industry in the immediate future, other methods of delivering digital-quality sound could herald an even bigger shake-up in the delivery of high-quality digital music by the late 1990s.

The arrival of digital audio broadcasts (DAB), which is being pioneered in Europe,

could enable consumers equipped with suitable receiving equipment and a digital recording device like DCC or MD equipment to make their own CD-quality recordings direct from the airwaves.

DAB has several key advantages over conventional analogue broadcasting such as FM radio. The main benefit is that the high quality sound of DAB, unlike conventional FM radio, is effectively free from interference and provides excellent reception even when the receiver is mobile. DAB also eliminates the problem of having to re-tune car radios because, unlike conventional radio, separate transmitters can broadcast on the same frequency.

A further important advantage of DAB is that it occupies relatively little space on the radio spectrum. By packing broadcast information tightly together DAB can provide a six-fold improvement in spectrum efficiency over FM. That means it is possible to increase

the number of radio stations without congesting the radio waves. While each FM network needs 2.5 megahertz of spectrum to provide coverage to 98 per cent of the UK population, a DAB service could pack five national stereo channels in 1.75 MHz.

To use DAB, consumers will need to buy a new type of programmable digital radio built on computer chip technology. Although the cost of these new digital radios will initially be higher than conventional receivers, there are an estimated 2m radios currently in use around the world and manufacturers could therefore look forward to a huge replacement market, and very significant economies of scale.

In Europe, digital radio systems are being tested in France, Germany and Britain where the UK government has signalled its support for DAB and urged UK manufacturers to be first into the market. NHK, the Japanese public broadcaster, has also hailed

the European DAB system. The prospects seem less rosy in the US, however, where small regional radio stations are resisting the introduction of expensive new technology.

In Europe it is likely that frequency bands generally used by television will be opened up as temporary "parking" bands for terrestrial DAB services to be run in parallel with FM until sufficient receivers have been installed to make the full switch from FM to digital services. In the UK, the first DAB car radios are expected to be introduced as early as 1995, with other sets likely two years later.

However, as with the fierce debate which preceded the launch of the new digital recording formats, the thorny issue of copyright protection for music distributed over DAB or cable systems, and then copied on to tape or disc by subscribers, has yet to be addressed.

Paul Taylor

## VIDEO GAMES

## Spectacular growth as Europe catches fever

WHILE the consumer electronics industry as a whole has been suffering from a dearth of new products to whet the appetite of increasingly sophisticated consumers, the video games market has been enjoying spectacular growth and the fever is far from abating.

The video games market has grown over the years into a \$14bn industry and is increasingly attracting the attentions of large consumer electronics manufacturers, which are suffering from sluggish demand in their traditional markets.

The appeal of the video game compared with television or music, is that it is active and interactive, says Mr Chris Anderson, managing director of Future Publishing, which publishes specialist magazines for video game fans.

Japanese and American consumers have been under the spell of Nintendo's *Super Mario II* game for several years now, with Nintendo regularly appearing on the charts of most popular toys.

Europe has been somewhat slower to catch the video games fever but having taken both Japan and the US by storm, Nintendo and Sega, its main competitor, are currently replicating their success in Europe.

Sales in the UK are expected to nearly double from about \$550m to \$1bn next year.

The appeal of video games is not limited to their games contents. The synthesized music that accompanies *Super Mario* games and *Tetris* have been in the pop charts and recording companies are said to be looking at the games industry as a source of added revenue.

Meanwhile, Mario will become the hero of a film to be released next year featuring Bob Hoskins.

While the growing European market has helped maintain a strong worldwide rise in the video games market, it is inevitable that once markets mature interest will die down.

However, fierce competition between Nintendo and Sega, the two leading forces in the market, is fuelling innovation in both hardware and software that has kept interest strong.

By continually developing new technology and new games titles the two have been able to defy sceptics who say

that the fad for what, after all, is just a game, is bound to die sooner or later.

"If there wasn't any evolution in hardware, the software available would inevitably become boring," says Mr Philip Ley, marketing director of Sega Europe.

Sega's drive to break Nintendo's pre-eminence in the market has led it to be the first to introduce two of the latest state-of-the-art formats which are keeping sales surging.

Sega was the first to introduce more powerful 16-bit technology in its Mega Drive (known as Genesis in the US), which allows faster and more realistic games to be played than on the previous generation of 8-bit machines.

It has also taken the lead in introducing a system based on compact discs, which takes game-playing a significant leap forward by bringing increased information storage capacity, quality digital sound, stunning graphics and realistic motion video to the screen.

Amid much fanfare, Sega announced the launch of a CD-ROM attachment which can be connected to the Mega Drive to play games on CD rather than conventional cartridges and demonstrated its potential on an enormous 750 sq ft screen in New York's Time Square.

Nintendo, meanwhile, has announced that it will also be launching a CD-ROM system. Together with Sega's announcement, it also confirmed expectations that the future of video games lies with CD-ROM.

"Games will undoubtedly move to CD-ROM," says Mr Bob Tomaski of What Video, an industry magazine.

The disc format provides greater speed and that is what video games fans want.

Another attraction of CD-based games is that because CDs are capable of storing a much larger amount of information, and thus detail, the quality of the visuals is much better than in cartridges.

Using CD-ROM also opens up the avenue to multi-media, the combination of digital quality sound, graphics, still photography and moving video, thus taking game-playing onto another level of interactivity.

In addition to graphics, the Sega CD-ROM games will use

what it calls "true video," or video that is close to television quality.

Software using footage from well-known films such as *Batman Returns* which will involve the player in fights with the Penguin as played by Danny de Vito, is in the pipeline - as are music games that allow players to make their own music videos using film from the live concerts of popular bands.

Sega has invested \$5m in Sega Multimedia Studio in Redwood, California, where it will produce not only computer-generated animation but also original movies for its interactive games.

It is working side by side with producer Steven Spielberg filming on the set of his next film to produce a game that will be released at the same time as the film.

Sega's aggressive move into new technologies is essential for it to gain what market share it can from Nintendo and keep its rival on its toes.

For consumers, the battle between the two giants which keeps the search for quality games and newer and better technology going, should be good news.

However, by moving into CD-ROM, Sega and Nintendo are treading on dangerous territory. There are already many computer games based on CD-ROM widely available, most notably Commodore's Amiga games which already have a strong installed base in some countries and sales equivalent to Nintendo or Sega in the UK.

Philips, meanwhile, has introduced a CD-based entertainment system and the wide variety of CD-based products available could create market confusion.

As the technology improves, "you eventually get into the realms of virtual reality (VR)," says Mr Ley.

When that happens, although it may be difficult to imagine today, we may very well no longer be tapping away at games consoles but donning a VR helmet with sensor pads attached to our eyelids and temples to enjoy a virtual trip through space cities and fight intergalactic wars with our minds rather than our fingers.

Michio Nakamoto

## ADVERTISEMENT

## The Difficult Life of the Audio Component

**T**he audio component in search of a loving home has a difficult life today. Traditional qualifications like a powerful bass and sparkling treble are no longer enough. The sound of hi-fi, as most people know it, is being scorned for a far loftier goal.

When listening to live music, you are rarely aware of snappy transients, a clear midrange and other man-made contrivances. Nor do you think of laboratory artifacts like signal-noise ratios or dynamic ranges. Instead, you note the lilt in a saxophonist's tone, the footsteps of a leaping dancer, and all the other magical sounds that make you feel happy and alive.

Live sounds are so natural that you never even think about them. Yet hearing this level of realism from a hi-fi system would make your jaw drop. Astonishingly, today's very best audio products are being designed for precisely this goal. Of course, this requires both sophisticated engineering and creative thinking; conventional approaches will never do. A truly cutting-edge audio technology can be found in Pioneer's range of Legato Link CD players.

Traditionally, audio equipment has been designed to reproduce software accurately. But since no software is perfect, obviously the ultimate goal should be to reproduce the original event, not the software. For example, most companies have said that CD offers "perfect sound forever". But Pioneer, recognizing CD's inherent limitations, has never agreed. This led to the Legato Link, a circuit that analyses CDs, computes what the original sound was like before it was recorded, and corrects the digital signals so the final playback is as close

Pioneer's Legato Link reaches beyond CD's limitations back towards the original performance.



to the original performance as possible. Best of all, it works on all existing discs.

## For Both Your Eyes And Ears

**Y**et no matter how natural it sounds, pure audio remains a highly artificial experience, for in real life you don't just hear - you also see. Simply stated, home entertainment should appeal to both the eyes and ears, just as in real life. The solution is the integrated audio-video home entertainment system.

However, a true audio-video home entertainment system requires an unprecedented level of innovation in electronics, optics, video and audio technology. Once again, creative thinking is the key. An outstanding example is Pioneer's range of combination Compact Disc/LaserDisc CLD players. Their theatre-level LaserDisc (LD) picture and audiophile digital sound provide an unforgettable sight and sound experience. And with the addition of the Legato Link, their sound will transcend conventional CD limits as well. Particularly when combined with Pioneer's advanced loudspeaker, amplification, and picture projection technology, the unrivalled visual and audio quality of a CLD player makes conventional home entertainment systems seem claustrophobic. Since a CLD player can play both audio CD and video LD, it is also perfect as the heart of a high quality home entertainment system.

## Not Everyone Can Play

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Pioneer's trademarks are quality and reliability. If a product doesn't meet our strict standards, we won't release it. Combining the sophisticated know-how of the dedicated specialist with the most advanced technology available, Pioneer products create a direct link to the thrill and emotion of the original performance. But we also emphasize versatile components that make sense for consumers. Designed to play and enhance the realism of a wide range of software formats, our products are specifically engineered against obsolescence. You see, we make life difficult for our products, because responsibility to the consumer is the most important factor of all.

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The Art of Entertainment


1. *Journal of the American Medical Association*, 1997; 277: 1033-1037.

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## INTERNATIONAL COMPANIES AND FINANCE

## Shimizu expects Y20bn costs for rationalisation

By Charles Leadbeater  
in Tokyo

SHIMIZU, the leading Japanese construction group yesterday disclosed its withdrawal from Australian and European markets this year would cost it more than Y20bn (\$160.8m).

Earlier this autumn Shimizu announced it was rationalising its overseas operations which it invested in during the late 1980s, including closing its UK operations.

Shimizu's sudden withdrawal, a rare retreat from overseas markets for a Japanese company, shocked many other Japanese construction companies which are seeking to cut costs in the face of a sustained downturn in the country's economy.

Shimizu said its after-tax profits would be cut by 55 per cent to Y30bn to cover the costs of liquidating subsidiaries in Europe and Australia.

The company reported a 10 per cent fall in pre-tax profits to Y50bn for the first half to September, on a 1.7 per cent increase in sales to Y931bn.

The company blamed a large share of the profits fall on lower interest rates reducing its return on investments. It also recorded a substantial appraisal loss on its securities holdings.

Shimizu's order intake fell by 19 per cent to Y1,115bn. Its investment programme will be cut by over 20 per cent from its original plans to about Y20bn. Executives said the govern-

ment's public works programme, expanded to stimulate the flagging economy, was creating strong demand for civil engineering projects. However, this was more than offset by a sharp fall in orders from the private sector.

● Kajima, the construction group, reported a sharp increase in bad debts and a cut in interest income was the main reason for a 9.8 per cent cut in first-half pre-tax profits to Y38bn. The company recorded a Y2.3bn deficit on its balance of financial items, after recording a Y5.1bn surplus in financial income in the same period last year.

● Kajima's sales in the six months to end-September rose by 25 per cent to Y907bn. But its new order intake dropped by 21 per cent to Y1,005bn.

The company warned that in the second half profits would be pulled down by a swelling deficit on financial items and low profit margins on large projects.

● Taisei, the Tokyo-based general contractor, reported an 18.4 per cent rise in first-half pre-tax profits to Y46bn, on a 21 per cent increase in sales to Y896bn. However, new order intake fell by 21 per cent to Y800bn.

● Obayashi, reported a 26 per cent rise in first-half pre-tax profits to Y15bn, mainly a reflection of its relatively low profits during the same period the year before.

Public sector demand was the main reason for a 4.5 per cent increase in sales to Y662bn.

## A besieged industry draws up plans for survival

Japanese houses have stopped hoping for a rapid return to the free-spending of the late 1980s, writes Robert Thomson

**D**aiwa Securities announced a net profit of zero for the first six months of 1992, cut its graduate intake by 40 per cent and launched a campaign for staff to "Do My Best" in encouraging investors to use the broker's services.

The reforms at Daiwa, one of the big four Japanese securities houses which has just closed three sales offices, reflects the upheaval in a securities industry which has begun to give up hopes for a rapid return to the free-spending days of the late 1980s.

Instead, the pressure for branch closures and mergers of brokers intensifies with each bad trading day.

Daily turnover of stocks on the Tokyo exchange this month is an average 150bn, far below the 450bn that marks whether most brokers make a profit or loss.

The listless trading has added to woes of a first half in which not one of the largest 14 brokers reported a net profit. Dramatic revival aside, the figures for the full year will be far worse, as brokers will be forced to write-off mounting losses on their stock portfolios.

In common with Daiwa, most companies are trimming workforces and pruning executive salaries, but these cuts do not go deep enough, and over the next two years, the crowded ranks of Japanese brokers will almost certainly be thinned by mergers and closures.

Japanese houses are already lowering their international profile. Nomura, the largest broker, has recently cut 35 staff from its London operations and closed three European offices. The list of branch closures lengthens each day. Okasan Securities has just

shut its Frankfurt office; Sanyo Securities has closed a Los Angeles operation; and Dai-ichi Securities is leaving Milan.

With so many brokers unable to lift themselves out of the red, the industry wants a slowing of financial deregulation. Debate continues on an end to fixed commissions and banks' entry into the investment trust market, both of which would increase competition and put added pressure on weaker brokers.

"Stimulating is our aim at the moment," explained Mr Satoshi Matsumoto, head of corporate planning at Kankaku Securities, which lost Y18.5bn (\$149.6m) in the first half, following a Y18bn loss last year. "We have to accept that the market is not the same and try to make money at the new, lower levels."

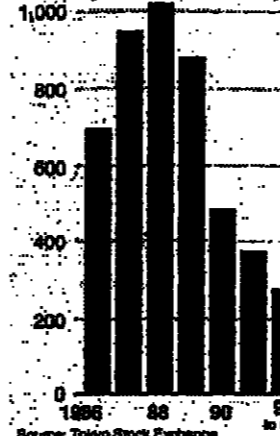
In explaining the industry's plight, brokers agree they badly miscalculated in the late 1980s, when daily stock turnover was an average 1.02bn. The financial bubble was pumped ever larger, and brokers concluded that the biggest problem was expanding rapidly enough to keep pace with the irrepressible demand.

● In the four years until the market peaked in December 1989, personnel at Japanese brokers rose by 41.6 per cent. Desperate to open new branches, but restricted by the Ministry of Finance, the brokers turned to now unprofitable sub-branches or "boutiques" in shopping malls, train stations and department stores - these were limited in products offered but still required heavy outlays in computer systems and rent.

Applications for full branches rose as rapidly as the Nikkei index - Kankaku had

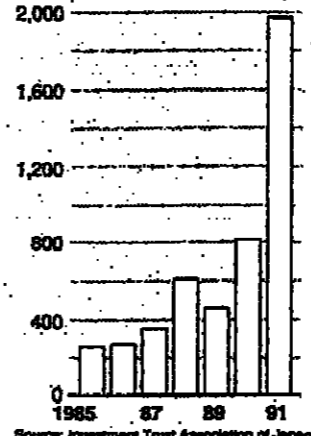
### Japan

SE trading volume (million shares)



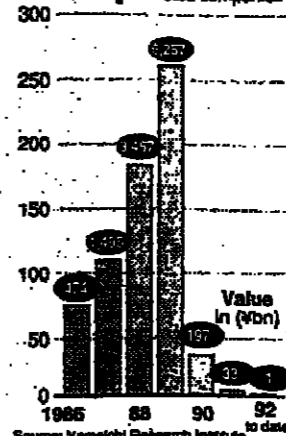
Source: Tokyo Stock Exchange

Redemptions of Investment Trusts (¥bn)



Source: Investment Trust Association of Japan

Public offerings of listed companies



Source: Yamatichi Research Institute

nine approved by the ministry that will not open - and were still being filed when the market began a "temporary readjustment". Three years later, the brokers' most important sources of income are still evaporating and their resources are nearing exhaustion.

A telling sign of the brokers' income shortage is the turnaround in public share offerings. In 1989, there were 261 public offerings which raised a total of Y6,257bn - so far this year, two companies have raised Y1.25bn, and no public offerings were made during the fiscal first half from April to September.

Stock and bond commissions, down 30 per cent in the first half, account for about 60 per cent of income at the big four brokers, Nomura, Daiwa, Nikko and Yamaichi. At the 10 second-tier companies, which reported first-half losses ranging from Y3.8bn to Y18.9bn, commissions account for around 80 per cent of revenue

and as much as 95 per cent.

Brokers had hoped that a revival of the corporate bond market would increase earnings. New issues rose from 33 in the second half last year to 40 in the first half, but the market is still heavily regulated. There are strict limits on the types of companies able to issue bonds and on the trading of those bonds, and the only real relief for leading brokers has been increased income from trading stocks on their own accounts.

Behind the falls in price and turnover on the Tokyo Stock Exchange is the simple fact that few Japanese institutions or individuals have an incentive to buy stocks. Life insurance companies and banks have their own financial problems and are not keen to pump more money into low-yielding stocks, particularly as many companies are cutting their dividends this year.

Individual investors are also shunning the market because

scandals last year raised doubts about the integrity of leading brokers, which admitted to compensating corporate investors for stock losses. The TSE insists that the industry has reformed, but brokers announced two weeks ago that they compensated clients even after the spate of confessions, apologies and resignations last summer.

In an attempt to stir interest in stocks, the TSE and finance ministry have urged industrial companies to increase their dividend payments, and discussed tax breaks for dividends and capital gains. The ministry this week announced a relaxation of limits on employee share ownership programmes, but the Nikkei market average was unmoved.

Mr Yukio Aida, chairman of Nomura Securities, said: "These are very difficult times," and companies are restructuring for "survival".

He said "even Nomura" may not have the resources to bail out stricken smaller brokers, which were heavily reliant on business from individual investors and were particularly aggressive in expanding.

Comparisons are being drawn between the industry's reform and the restructuring of Japanese banks, which are establishing a land and loan purchase company to ease the heavy burden of non-performing assets. Banks also have an understanding from the government that public funds may be used if the crisis worsens, but the securities industry can expect no such public assistance.

Just as the finance ministry is encouraging mergers to streamline the banking system, ministry officials believe that the 394 brokers registered with the Japan Securities Dealers' Association are far more than the country can support. The difficulty is finding brokers willing to expand their networks through mergers and acquisitions of the more vulnerable houses.

For some brokers, traditional bank patrons are offering assistance. Dai-ichi Kangyo Bank, Japan's largest, is helping to overhaul Kankaku Securities, while Sakura Bank has renegotiated loans at Yamatane Securities, which is planning to cut management staff by 40 per cent.

If deregulation stays on track, the banks could use these connections to expand their role in the securities industry, but little money will be made in the near future.

Kankaku "hopes" to make a profit by March 1994, but says much depends on the timing and strength of an economic recovery.

## Cheaper funding lifts Orix

ORIX, the leading Japanese leasing company, reported a 6.4 per cent increase in net income to Y10.02bn (\$80.5m), largely a reflection of tighter credit screening of clients to reduce risks of bad debts and cheaper funding as a result of cuts in Japan's official discount rate, writes Charles Leadbeater.

The Orix group is one of Japan's top non-banks, which

are less tightly regulated than the banking sector.

The non-banks have been hit by a rising tide of non-performing loans as a result of the sharp fall in the real estate market over the past two years.

The group's revenues were about 15 per cent down at Y198bn for the six months to end-September.

## Yasuda in Paine Webber share sale

YASUDA Mutual Life Insurance of Japan has halved its investment in a capital deal-up with Paine Webber to \$100m and sold Paine Webber 1.7m shares at the request of the US brokerage, Reuter reports from Tokyo.

Profits from the sale totaled \$63m and follow a similar sale in February.

## Japanese synthetic fibres group declines to Y25bn in half year

By Ray Bashford in Tokyo

TORAY Industries, the Japanese synthetic fibres group, yesterday announced a 12.2 per cent fall in unconsolidated pre-tax profits to Y25.08bn (\$201.2m) in the six months to September 30. Sales slipped 1.9 per cent to Y296.7bn, while net income fell 15.2 per cent to Y12.5bn, compared with Y15.03bn in the previous corresponding half year.

Sales of fibres and textiles fell 1.6 per cent to Y166.1bn, despite higher sales for products used in clothing such as polyester filament and nylon. However, nylon sales to the tire and carpet industries fell, reflecting the difficult trading conditions in the automotive and construction sectors.

Plastics and chemicals sales were 7.9 per cent lower at Y90.8bn. The automotive industry's troubles also hit this division, while the slowdown in sales of electrical appliances and magnetic tapes also had an adverse impact. Chemicals sales moved higher led by caprolactam which is employed in synthetic fibre production.

In the group's new products

and other businesses area, sales advanced 13.5 per cent to Y39.9bn. Foreign sales of advanced composite materials which are used in the aircraft industry moved against the trend in the division although sales to the sporting goods business strengthened.

Toray is forecasting a fall in net income for the 12 months to March 31 next year to Y25bn

against Y27.2bn in 1992 and a slight rise in sales to Y600bn for the same term.

● Taishe Pharmaceutical posted a 1.7 per cent rise in non-consolidated pre-tax profits to Y28.8bn for the six months to September, writes Emiko Terazono.

Sales rose 6.3 per cent to Y104.9bn. After-tax profits grew 7.1 per cent to Y14.5bn.

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## COMPANY NEWS: UK

## Capacity to be cut by a sixth in response to fall in demand

By Andrew Taylor,  
Construction Correspondent

**BLUE CIRCLE** Industries warned yesterday that the cost of closing down a sixth of its UK cement capacity would reduce its operating profits this year by £58m. More than 500 jobs are at risk.

However, the company repeated its pledge to maintain total dividends at 11.25p for the year to December 31.

The move, in response to a big fall in demand for cement from the construction industry, was welcomed by brokers and the shares rose 2p to close at 177p.

The group said that the £58m closure provisions and a £20m UK property loss this year would be offset at the operating profit level by net sale proceeds of £44m, mostly from the disposal of the South African building materials business.

Previously the sale proceeds would have been included

## Blue Circle cement cuts please City

below the line. Blue Circle said that the changed treatment was required under the new FRS 3 accounting standard introduced by the Accounting Standards Board at end of last month.

Brokers, following the announcement, reduced their forecasts for pre-tax profits this year from between £100m and £115m to between £60m and £80m.

Mr Keith Orrell-Jones, managing director, said the company planned to reduce its UK cement manufacturing capacity by 1.2m tonnes to 6.7m tonnes. It intends to close one kiln and mothball another at

its Northfleet Works in Kent. This would leave just one kiln working at the plant compared with six kilns 20 years ago.

The company is also closing 13 of its 23 UK cement distribution depots. It said that a total of 550 jobs would be lost, representing about a fifth of its current UK cement workforce.

Most of the jobs were expected to go through compulsory redundancy and would affect management as well as blue collar staff. Approaching half of the provision would be used to meet redundancy costs. Blue Circle, which produces about half of all the cement

sold in the UK, blamed the recession in the construction industry for the cutbacks.

Mr Orrell-Jones said that construction output would not climb back to previous levels even when the market recovered.

Annual sales by UK cement manufacturers since 1988 had fallen by a third from 17.5m tonnes to a little less than 12m tonnes this year. This compared with an industry capacity, before the latest reduction, of more than 14m tonnes.

Mr Orrell-Jones said that the benefits of the rationalisation would start to show through in improved profits within a year



Keith Orrell-Jones: output not expected to recover fully of it being implemented.  
See Lex

## ACT rise falls short of estimates

By Alan Cane

**ACT**, the acquisitive computing services company, announced interim pre-tax profits of £9.54m, up 25 per cent on last time but at the lower end of City expectations.

The shares fell 9p to 146p.

Turnover rose 37 per cent to £73.1m (£52.6m) in the six months to September 30. Earnings per share, however, were only 4 per cent ahead at 3.34p, reflecting the acquisition strategy. The interim dividend is raised to 1.75p (1.5p). Cash balances stood at £21.3m.

The outstanding performer among the new acquisitions was Kindie, the Irish financial software house, which turned in a profit contribution before tax of £4.2m.

The figure ensures that Kindie's directors will be paid an earn-out fee of £5.5m.

Mr Roger Foster, ACT chairman, said the earn-out payment meant the company had been acquired on a p/e of about 6.2: "It looks like the most outstanding acquisition we have done".

On the debit side, two of ACT's previously profitable divisions both lost money in the first half.

Medisys, which provides financial systems, lost £150,000 chiefly because of uncertainty among trust hospitals over the general election result.

Logsys - whose customers are principally central government departments - lost £800,000 during its transformation from computer hardware supplier to systems integrator. Both divisions now operate profitably, Mr Foster said.

The acquisition of NMW Computers, which would enhance ACT's strength in stock processing and delivering and give cost savings in data processing, has been delayed while the Office of Fair Trading considers ACT's market share in stock processing.

Alliance, which remains in receivership, also announced a series of board changes, which

## Hogg Robinson slips to £10m in weak markets

By Angus Foster

**HOGG ROBINSON**, the travel, transport and financial services group, experienced a slight fall in interim profits reflecting weakness in the business and leisure travel markets.

Pre-tax profits slipped from £10.9m to £10.1m in the six months to September 30. Turnover increased 10 per cent to £57.1m helped by acquisitions.

"In the circumstances, this is a pretty good set of results," said Mr Chris Brown, finance director. Operating profits from travel fell from £5.53m to £4.34m. Business travel, which accounts for about 60 per cent of the division's turnover, was affected by the recession and companies' tight control of travel budgets. Leisure travel was hit by price discounting as tour operators overestimated demand following the collapse of international leisure group.

The transport division, which covers commercial freight operations in Europe and the Balkans, increased profits 50 per cent to £3.17m. Most of the rise came from Dens of Belgium.

Financial services continued to see growth from advising on

corporate pensions and lifted profits 6 per cent to £3.4m.

Net cash fell £1m to £28m and interest earnings were lower at £1.16m (£1.81m).

Earnings fell to 9.35p (10.03p) but the interim dividend is increased to 2.5p (2.5p).

### COMMENT

Times obviously remain tough in travel. While price cutting on the high street grabs the headlines, the downturn in corporate travel budgets - initiated ahead of the Gulf war - is more damaging. Business travel will also be affected by sterling's fall in value. Companies will have another reason to stop executives upgrading to business class. But Hogg's performance elsewhere was encouraging, especially at Dens, giving grounds for optimism in the longer term. Before then, Hogg is looking to spend some of its cash pile on acquisitions, probably in the travel division. Full year forecasts of £15m put the shares on just over 12 times, suggesting there is room for growth once consumer and corporate confidence returns to the travel market.

## Alliance winding up order abandoned

By Peggy Hollinger

**GIROCENTRALE** Gilbert Elliott has abandoned its attempt to wind up a former client, Alliance Resources, the Louisiana-based oil and gas company which it brought to the market in 1991.

The broker has reached an agreement with Alliance over its claim for £38,346 in flotation fees. Cash-strapped Alliance had already paid £71,635 in fees but disputed the outstanding amount.

Alliance, which remains in receivership, also announced a series of board changes, which

resulted in the reinstatement of former chairman Mr John O'Brien and the appointment of two new non-executive directors, Mr Marcus Black and Mr John Craven. Mr Don Bealer, former vice-chairman, has resigned.

The group was put into receivership last month by the unquoted Manx Petroleum, where Mr O'Brien is managing director.

Manx claimed that Alliance had defaulted on the terms of a management agreement and a \$200,000 (£132,000) loan following the surprise dismissal of Mr O'Brien.

## Cater Allen gets benefit from lower UK rates

By Richard Waters

**CATER ALLEN** yesterday became the latest discount house group to announce strong profits on the back of falling UK interest rates, though it continued to refuse to comment on whether it is discussing a takeover of rival Union Discount.

Outlining the group's plans, Mr James Barclay, chairman, said: "We're in the business of building on what we've already got... We don't want to over-diversify."

Unjudged diversification into leasing and property in the 1980s has brought losses at Union Discount, culminating in news on Wednesday that it is discussing a possible takeover.

Mr Barclay refused to be drawn on whether absorbing a rival discount house would meet his objective of strengthening Cater's existing businesses. He added: "If Union Discount disappears, it would

be a disappointment to me."

Cater did not publish figures for the six months to the end of October, but said that its discount house, stock lending and Jersey businesses had "performed particularly well." Also, futures broking is reported to have improved and to have shown a profit. Losses on the group's business at Lloyd's, where it operates both as a managing agent and a members' agent, were larger than in the first half of last year.

Mr Barclay said the group had not made large profits when sterling sank out of the ERM in September, but that discount houses always did well when interest rates were falling - a factor which had made November a good month so far, as UK base rates fell again last week.

Cater is raising the interim dividend by 1p to 7p, though Mr Barclay said this did not indicate it was planning to lift its final dividend as well.

## Critchley debut with £25.4m tag

By Richard Gourlay

**CRITCHLEY**, the maker of electrical cable accessories, will begin trading next Thursday with a market capitalisation of £25.4m.

SG Warburg Securities, the company's adviser, said yesterday it had placed 6.7m shares at 220p with a number of institutions and with some brokers for private clients. The issue will raise £14.7m and leave Critchley with net cash of about £3m.

The pricing puts the group on a substantial discount to Bowthorpe and Volex, companies with which it is sometimes compared with.

Critchley will come to the market at 14.4 times historic earnings, while on prospective earnings of 18p per share.

The shares will start with a multiple of 12.3.

This is based on forecasts of £2.8m pre-tax profits for the year.

The dividend yield, based on a notional net dividend, is 3.7 per cent.

## Barrett founders lead £15m buy-out

By Andrew Bolger

**THE CORE** businesses of Henry Barrett Group, the Bradford-based company which went into receivership last week, have been sold in a management buy-out worth £15m.

A new company, Barrett Steels, has acquired the group's steel stockholding and steel buildings businesses, employing 450 people and still trading profitably, with a combined annual turnover of £82m.

Mr James Barrett and his brother, Richard, members of the group's founding family, will lead the buy-out, which has been backed by Granville Development Capital and Apex Partners.

The team is paying the receivers, Grant Thornton, £12m. The new company has been financed by £5m equity, £5m in term loans and a £3m working capital facility.

Mr Allan Griffiths, one of the receivers, said that as well as paying the purchase price, the new company would assume about £17m of the parent group's total debts of £40m-£45m.

Mr Griffiths said it was an unusual situation, in that talks regarding sales of the two businesses were well advanced when the receivers arrived, keeping the companies out of receivership.

The two companies had been extensively marketed over the summer and received several bids, of which the existing management's was the highest. The receivers soon hope to sell Lindapter, the group's special fastenings company, which was also kept out of receivership.

Touche Ross in Leeds acted as lead financial advisers to the management and Simpson Curtis were legal advisers. KPMG Peat Marwick gave financial advice to the investors and Evershed Hepworth and Chadwick were legal advisers.

Henry Barrett was floated in 1987 and undertook an aggressive diversification policy to reduce its dependence on steel. The buy-out team said the parent company's financial difficulties were due largely to the underperformance of these acquisitions.

This announcement appears as a matter of record only.

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## BUSINESSES FOR SALE

# Henry Barrett Group plc

## (In Receivership)

The following subsidiaries are mainly involved in contracting for construction industries, operating throughout the U.K. and overseas.

There is also a portfolio of freehold properties and investments available for sale.

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- Annual turnover £3 million

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- Freehold site
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#### Wetherby

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- Highly skilled workforce
- Leasehold site
- 64 Employees
- Annual turnover £6 million

For further details contact the Joint Administrative Receivers:  
Allan Griffiths, Peter Flesher and Geoffrey Gee, Grant Thornton, Eldon Lodge, Eldon Place, Bradford BD1 3AP. Tel: 0274 734341. Fax: 0274 390177.

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- MA Boswell (Contractors) Limited – Shrewsbury.
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- Thoroughbred Commercial Developments Limited.
- Joinery and laminating business.

Architectural Postforming and Joinery Limited – Brierley Hill, West Midlands.

Enquiries to the Joint Administrative Receiver of Hickman Boswell plc, SRE Hancock, Price Waterhouse, Cornwall Court, 19 Cornwall Street, Birmingham B3 2DT. Tel: 021-200 3000. Fax: 021-200 2464.

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## Cleveland Shotblasting Ltd.

The Joint Administrative Receivers offer for sale the business and assets of Cleveland Shotblasting Ltd., an established shotblasting and painting company, located in Thornaby, Cleveland.

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For further information contact The Joint Administrative Receiver, Julian Whale, KPMG Peat Marwick, 1 The Embankment, Neville Street, Leeds LS1 4DW. Tel: 0532 313000. Fax: 0532 313183.

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## Resort Ltd.

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The Joint Administrative Receivers offer for sale the business and assets of Resort Ltd. The company manufactures headliners, body insulation and trim for commercial vehicles.

- Established customer base
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- 40,000 sq ft of leasehold premises
- Thermal platen presses

For further information, please contact G. Ord, Ernst & Young, PO Box 1, 3 Colmore Row, Birmingham B3 2DB. Telephone: 021-626 6262. Fax: 021-626 6305.

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- Turnover c.£6 million p.a.
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For further information, please contact the Joint Receivers, Frank Blin and G. Ian Rankin at Cork Gully, Kildrye House, 209 West George Street, Glasgow G2 2LW. Telephone: 041-226 4884. Fax: 041-226 5133.

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## RECRUITMENT

## JOBS: Rare headhunter who still treats rejects as though they're worth more than ten a penny

WHAT price a bit of human decency? "Well, it's a bit controversial," replied headhunter Terry Ward. "I put it at about £150 a head, but my wife reckons £2 - though she includes secretaries' time, which doesn't strike me as justified. They'd be here anyway, you see, even if we weren't doing it..."

All of which rather took the Jobs column aback. My last wish in asking the question was to stir up marital disagreements. What prompted it was just journalistic impulse in line with the old saw which, before the fuss over pit bull terriers at least, stated that while dog bites man is commonplace, man bites dog is news.

One thing rarely missing from the postbag is complaints from job-seekers about recruiters, and vice versa. They have been biting one another so regularly for so long that, with the idealism of mere middle-age in 1978, I proposed a peace treaty which Britain's Institute of Personnel Management developed into its professional recruitment code.

Alas it has not proved very effective, especially these past two years. Indeed, to judge by the current gnashing of teeth on both sides of the employment market, it seems clear that whether or not

the first casualty of war is truth, considerate treatment is an early one of recession.

Hence this particular hack's delighted surprise when a reader wrote in praising a headhunter to whom he'd applied for a job, even though he'd been rejected without hearing the interview stage.

That in itself is nothing new to the reader concerned, since he has valiantly applied for a couple of hundred others over 18 months or so. Mostly, he had no response at all. The sole exceptions, he says, were brief acknowledgments from employers recruiting directly, and from a few "quality agencies" such as NB Selection, MSL and Selector.

But on this latest occasion, the reader adds, back came a reply which despite being a rejection, shows "human understanding of applicants' needs". And having read the copy he sent along, I can see why he was so pleased.

Although confessing itself "a standard letter", it focuses its 400-plus words on the specific job for which he had applied. "The response included several videos,

many customised and beautifully presented applications, and even one compact disc," it says. "We received nearly 400 applications and my interview programme includes 39 people."

Then after indicating why the reader was not one of them, the headhunter adds: "However, I may well have thrown out the odd baby with the bath water - probably you - but I hope you will appreciate my position."

What particularly pleased me was that the signature below was that of Terry Ward, whom I've known for years. He began his recruitment career with Ford, and since 1987 has been running the Ward Executive consultancy in Richmond-upon-Thames, in conjunction with his wife Clare.

So I telephoned him and asked how much it cost to respond to rejected applicants with such care when as many as 400 of them come in for a single post.

His reply was that 400 was below average these days. On three occasions fairly recently he has had over twice as many - which in each case works out at a

By Michael Dixon

response cost of £1,200-plus at his estimate and more than £1,600 at Mrs Ward's higher figure.

"It's irritating at times because a lot of applicants are totally unsuitable," he said, "and at first we just sent printed cards. But when they started coming back with rude words on them, we realised they were making some people feel insulted, and began doing the job properly. We feel it's definitely worth while."

Why? "Well, it's partly commercial. In this business it's wise to view every candidate as a potential client. But that's not the main reason. After all, even at £2 a head, it's a small price to pay for treating someone decently."

NOW to the table alongside, which gives indicators of prevailing pay levels in City of London banks, as revealed by Day Associates' latest survey. Compiled at the beginning of this month, it is based on data

supplied by 111 assorted banks and covers 230 jobs from general manager to messenger. But anyone wanting the full report will need to contact Joe Clark at Suite 2.31, 75 Whitechapel Rd, London E1 1DU; tel 071-375 1397, fax 071-375 1723. The VAT-inclusive

price is £141 to concerns which take part in the exercise, and £200 to others.

My extracts - which like all such survey figures provide at best a rough guide to the real state of pay - are confined to 16 managerial posts. First we have

basic salaries. The lower quartile refers to the person a quarter way up from the foot of a ranking of all in the same type of job, the median to the person mid-way, and the upper quartile to the one a quarter way down from the top.

Next comes the average salary and the percentage of it typically received as a bonus. The last two columns show the percentage of the job-holders with a company car, and its average price.

Position	Lower quartile £	Median salary £	Upper quartile £	Average salary £	Average bonus %	Company car %	Average price of car £
Equity trading head	100,000	110,000	130,000	112,000	25.2	80	15,500
Capital markets head	99,800	104,377	120,000	107,997	46.0	100	23,314
Corporate finance head	95,000	102,500	123,200	107,824	19.4	100	24,598
Eurobond trading head	71,000	93,280	130,000	98,456	60.0	80	18,365
Fund management director	85,000	91,500	105,250	94,472	15.8	100	22,777
Bond sales head	79,000	90,000	100,000	89,317	16.5	90	18,931
Head of research	82,350	86,000	94,080	87,108	11.3	100	18,983
Personnel director	60,125	82,952	92,500	79,726	18.6	83	18,467
Chief fx dealer	62,800	75,800	93,450	80,691	25.4	96	18,633
Financial director	61,680	69,000	72,000	73,843	14.3	100	20,965
Legal services head	60,000	65,600	80,448	67,221	31.0	100	18,984
Money markets head	54,337	65,550	87,000	70,859	31.9	100	18,162
D-P director	54,000	61,640	66,250	61,297	10.0	100	17,800
Private banking head	50,000	55,000	65,000	62,912	18.8	94	15,596
Credit manager	38,000	41,250	43,680	40,692	7.7	80	19,599
Customer services head	24,150	26,500	34,750	28,086	9.4	53	12,810

\*Average inflated by one enormous salary among the sample of 11 people.

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## The Securities Industry Examination Results will be published on Wednesday 25th November 1992 in the Financial Times.

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## ACCOUNTANCY COLUMN

# Act of charity brings audit day of reckoning

Andrew Jack explains why non-profit organisations have to take financial reporting more seriously

BRITISH CHARITIES may soon be forced to drop their collecting tins and cheque books and turn instead to their computer spreadsheets as a whirlwind of change forces them to take financial reporting seriously. After years of neglect, a substantial cultural shift and a series of new guidelines and legislation are rapidly bringing accounting matters in the sector to the fore. Moral suasion is being replaced with tougher demands for compliance.

The next few months should bring considerable reform. Most important are several regulations to supplement the 1992 Charities Act, specifying how charities present and audit their accounts, and an updated version of SORP 2, the statement of recommended practice for charity accounts. The Charities Commission is expected to issue a consultation document updating SORP 2 by the end of January. The Home Office will be releasing details of several statutory instruments by early next summer to cover the elements to be contained in accounts: the content and format of reports; and the duties of auditors.

By next September, there should be requirements in place on what accounts will contain. All charities with annual income in the current or previous two years above £100,000 will require annual scrutiny by a professional auditor, and those with income above £1,000 by an "independent examiner". All will also be required to file accounts each year. The current pace of reform is not limited to Britain. Last month the Financial Accounting Standards

Board in the US issued a consultative document on financial statements for not-for-profit organisations as part of a wider programme of sector reform.

There is undoubtedly a need for greater attention to responsible financial management and accountability. Charities have substantial tax privileges. They rely on contributions made in good faith by the public or government. They are also big business. Estimates suggest there may be 300,000 or more total charities, with annual income of at least £16bn.

Yet observers do not need to look very far to see the extent of existing neglect. Last year there were nearly 135,000 principal charities registered with the Charity Commission. The proportion of these that got as far as submitting accounts was just 11 per cent in 1989.

Thanks to computerisation and greater efforts to chase up delinquents, that figure has risen substantially and the commission is confident it can collect more than 80 per cent of accounts by 1994. Yet last year it still remained at only 46 per cent.

There is little guarantee of the quality of financial information even among those charities which do file accounts. In 1988, the Accounting Standards Committee issued SORP 2. But the guidelines are entirely voluntary. They have also been criticised for being too flexible.

There is also little data on the extent of compliance with SORP 2. But one barometer of the quality of information is this week's charity annual report and accounts award sponsored by the Institute of Char-

tered Accountants in England and Wales, the Charities Aid Foundation and the Charity Forum.

This year there were only about 330 entries, down from a peak in one year of 500. The judges believe charities may have been put off by details in the application form showing elementary mistakes made in the past. But a good number of submissions still suffer the same faults, including points as basic as no accounts attached or the balance sheet being unsigned and

### There is a need for charities to give greater attention to responsible financial management and accountability.

undated, let alone failure to comply with SORP 2.

That said, Sir Christopher Collett, chairman of the judges, believes there has been a marked improvement in the quality of charity accounts in the last few years. There has also been a great rise in interest in the subject.

Mr Adrian Randall, finance director at the Cancer Research Campaign and another judge, says: "There has been tremendous improvement in the last two years. Charities are waking up to the fact that we are publicly accountable."

Given the diversity of the sector, it is difficult to generalise. Many thousands of charities are limited liability companies, registered with Companies House and obliged to file annual

accounts. Many of the larger organisations are already externally audited, and show a high degree of compliance with SORP 2. For smaller charities, the pattern is more disappointing.

There is understandable caution about what they want to reveal. Mr Peter Scott, an accountant and financial publisher compiling a directory of charity accounts, says: "While companies have a tendency to enhance their figures, charities wear the most poverty-stricken clothes possible and tuck away income for fear that contributions will dry up."

Being too explicit about income could bring a lack of sympathy, since donors tend to contribute when they believe a charity is in financial difficulty. It might also give rival charities ideas on potential new donors.

Mr Scott says charities very often write off all expenditure immediately. They try to avoid passing money through income and expenditure. There is little indication of how much of their funding is tied or committed. They also provide scanty information on the value of their assets. He would like to see improvements in the information provided in these areas. He also believes that SORP 2 allows too many alternative methods of treatment and needs to be made more rigidly applicable.

A paper submitted by a group of researchers to the Charity Commissioners argues that SORP 2 should be revised to reflect factors such as greater information on charities' sources of income; expenditure by areas of activity; and details of costs. It calls for clarification of which sub-

sidaries or related organisations should be consolidated, and much more on the valuation of assets.

But Scott - like many charity accountants - is also conscious of the dangers of drawing comparisons based on the accounts. Focusing on overheads and administration expenses can give rise to unfounded criticism, for example.

The charity accounts award highlights one such instance. One winner, Community Network, showed administration expenses as 90 per cent of income. There was little explanation of these expenses, which might appear very high. In fact, one of the Network's principal activities is telephone counselling, and the telephone bill accounts for most of these costs.

The figures will vary widely - and justifiably - between a wide range of different sorts of charities, from fundraisers to those carrying out their own activities, and from those reliant on volunteers to those staffed by highly-qualified professionals.

Mr Fethi Fraymjee, senior consultant in the charity unit at accountants BDO Binder Hamlyn, argues that accounts tend to focus on inputs and are far less valuable in assessing outcomes. He says there is a need to look at other, more qualitative criteria which could be included in the trustees' reports to accompany charity accounts.

He proffers a rather heretical view of his profession. "Accountants think accounts are the be-all and end-all. But charities have no bottom line or earnings figures. The numbers do not measure their effectiveness."

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## Financial Controller

Finance professional with strong management ability sought to lead the central finance team of this respected independent group. Global specialist brokers with significant resources and diverse international client base providing innovative, commercial insurance products with a dedication to service excellence. Excellent opportunity to manage substantial finance function and implement change to enhance business efficiency.

#### THE ROLE

- Provide clear leadership, structure, management development and training to a c. 50 strong team. Facilitate improved communications with operational managers.

- Upgrade systems and procedures to improve the quality and timeliness of management information. Oversee group forecasting and budgeting. Control forex activities and monitor financial management of overseas operations.

- Work closely with Group Finance Director contributing to overall development and management of the business. Forge relationships with divisional managing directors on a worldwide basis.

London 071 973 8484  
Manchester 061 437 0375

#### THE QUALIFICATIONS

- ACA or ACCA with a minimum of five years' post qualification experience, from a fast-moving service environment encompassing multi-currency transactions. Understanding of IFA regulations beneficial.
- Accomplished technical accountant with a record of success in managing change within a financial control environment. Involving detailed review and broad strategic analysis. IT literate.
- Strong commitment to people, with an open management style. Commercial focus, pragmatic and organised approach, firm, persuasive communication skills. The potential and stature to assume a larger financial role in the medium term.

**Selector Europe**  
A Spencer Stuart Company

Please reply, enclosing full details, to  
Selector Europe, Ref. F2031112L,  
16 Cornhill Place,  
London EC2A 4EJ



## FINANCIAL CONTROLLER

Our client, a Dutch Company engaged in heavy lift contracting, is a wholly owned subsidiary of a major multinational group. Due to continued development within the Group a new role of Financial Controller has been created to be responsible for all Statutory, Financial and Management accounting requirements. Based initially in the North East for a two month period of induction you will take up the position in the Netherlands. Your duties will encompass:

- A review of internal systems and procedures, including the preparation of monthly and quarterly reports.
- Enhancement of management accounting systems, including the preparation of monthly and quarterly reports.
- Preparation of monthly and quarterly reports, budgets, forecasts and special project work using mainly Lotus 123.

The successful candidate will be a qualified Accountant with a minimum of five years post qualification experience in a similar role. You will be a strong character, a team player, with the ability to operate and control an environment of positive change. Previous experience in the heavy lift contracting industry is desirable. You should be versatile, resourceful, and have a strong commitment to people.

Experience of full reporting to the Finance Director would be an asset. Fluency in Dutch (or another European language) would be an advantage. Extensive use of spreadsheets (preferably Lotus 3.1) are essential.

You should be mobile and preferably single. The role is based in the North East to Holland after a two month period and return to the North East on the 6 month to 3 year period.

Benefits will include a car and two return tickets to the UK per year.

Interested applicants should contact either Karen Wilson or Dawn White on 071-495 4161, or write enclosing a recent CV and a note of current salary to FMS, 5 Bream's Buildings, Chancery Lane, LONDON EC4A 1DY.

HOLLAND

£30-35,000 PA  
PLUS  
BENEFITS

## Financial Planning Controller

NW London

Jointly owned by Pepsico and Whitbread, Pizza Hut (UK) Ltd is part of the world's largest pizza restaurant chain. Accelerated organic growth has achieved market leadership, through strong brand image and high quality service. Current turnover of £150m is generated from 300 sites throughout the UK and the company has aggressive plans to increase its market dominance.

Internal promotion creates the opportunity for an outstanding young accountant to lead and develop the financial planning and analysis function. This is a high profile role, with responsibility for the preparation and presentation of all operational and strategic plans for the business, together with the analysis, interpretation and communication of commercial/financial performance. Significant emphasis will be placed on the introduction of the

latest forecasting and appraisal techniques and the leadership and development of a high calibre team.

Candidates, aged up to 35, should be graduate accountants who can demonstrate rapid development to date in a sophisticated, marketing led, blue chip company. Outstanding communication, presentational and management skills will be essential for success in this role and will ensure excellent career prospects for the future.

Interested applicants should forward a comprehensive curriculum vitae, quoting ref: 2663, to Alan Dickinson FCMA, Executive Division, Michael Page Finance, Page House, 39-41 Parker Street, London WC2B 5LH. Tel: 071 831 2000.

PEPSICO

Pizza Hut

ESTD 1742  
WHITBREAD

## Global Environmental Services Group Finance Manager

c.£32,000 plus package

West London

The company is one of America's leading environmental services organisations, with over \$1 billion in revenues. It is now seeking to grow by acquisition in Europe and the Pacific.

### THE APPOINTMENT

As a key member of the senior management team, the appointee's responsibilities will include:

- Installing accounting systems and control procedures.
- Outlining, communicating and monitoring subsidiary company reporting requirements.
- Consolidating results and liaising with corporate office.
- Participating in acquisition investigations and due diligence procedures.

There is considerable scope for future career development both within the London office and the international group.

### THE REQUIREMENTS

- Probably aged late 20s to mid 30s.
- A recognised accountancy qualification, ideally ACA.
- A minimum of two years' post qualification experience.
- Computer literacy.

The appointee will be a team player and self-starter with a "shirt-sleeves" approach to work. A degree of international travel is envisaged.

Please apply in writing with full CV and salary details, quoting reference 5399/D, by 7 December 1992 to Geoffrey Mather, K/F Associates, Pepys House, 12 Buckingham Street, London WC2N 6DF.

K/F ASSOCIATES  
Selection & Search

A DIVISION OF ROBERT HALF INTERNATIONAL

We are a highly successful US multinational and a world leading capital equipment manufacturer. We wish to make the following key management appointment to our headquarters team.

## European Group Financial Controller

You will be responsible for providing timely, accurate and meaningful financial analysis, management information, reporting and corporate support. This is a challenging role involving strategic, proactive and day to day issues in a fast paced corporate environment.

Candidates should have in depth experience of multinational group management accounting, US GAAP and Database Management, plant and operational accounting. Fluency in a European language would be most useful.

Candidates should write to Michael James, Executive Resources Manager at the address below enclosing a detailed curriculum vitae including salary progression.

**SnyderGeneral**

European Group,  
Avenue des Pléiades 19,  
1200 Brussels, Belgium.

## Director MBA in International Business

The University has recently introduced a successful MBA programme and is now seeking a full-time Director to lead this initiative. The Director will be responsible for the team that is already in place and will lead the development and promotion of the programme and related short courses and seminars.

The Bristol MBA is international in terms of subject matter, staff and student intake. A key responsibility will be the continued development of international networks with other academic institutions, multinational corporations and international organisations. Candidates should be both entrepreneurial and innovative, with experience that has given them an awareness of quality business education and provides personal credibility with senior decision-makers in private and public sector organisations.

Salary and other tangible benefits are attractive. For further particulars of this important post telephone (0272) 256450 (ansaphone after 5pm) or write to the Personnel Office (EO), University of Bristol, Senate House, Bristol BS8 1TEL, quoting reference B65 or Fax (0272) 259473.

Closing date for applications 18 December 1992.

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Philip Wrigley on 071-873 335

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We wish to add to our team a professional who is stimulated by problem solving, and who is technically knowledgeable on tax and treasury matters. He or she will be computer numerate, and able to produce and present detailed financial papers summarising and explaining complex financial concepts in an interesting and appealing way. The successful candidate will be expected to form strong relationships with a wide variety of clients by seeing life from their point of view.

This is an opportunity to join a mature, highly disciplined and well funded business. The ideal candidate must be seeking new challenges and, today, is probably group treasurer, chief accountant, or their deputy, in a top 500 company.

Salary will be competitive with anything you are earning now. In addition, a substantial performance related bonus will be available.

Please apply providing a full CV which will be treated in the strictest confidence to:

Managing Director,  
Capital Value Brokers Ltd.  
17 Dufferin Street,  
London EC1Y 8NJ

## MEDINA HOUSING ASSOCIATION

## Finance Director

c£38,000 + car/benefits - negotiable

Medina Housing Association Limited is the largest housing association on the Isle of Wight.

The Association is a non-charitable 1985 Act I & P Society, currently managing some 3,000 dwellings and committed to growth and new development by house-building, shared ownership and other programmes.

Privately financed in excess of £30m through a major building society and with some £100m assets, the Association has significant further funding requirements for future years with local authority and Housing Corporation support.

Attractive offices in Newport, Isle of Wight, in an area of outstanding natural beauty with excellent school, leisure and other facilities.

Unique opportunity for ambitious qualified accountant (e.g., graduate, A.C.A.) to join small management team in building a major new organisation for the Isle of Wight. The Finance Director will have responsibility, working with a new Chief Executive, for all financial matters including business planning, statutory and management accounting, budgets and cash flows, plus I.T. and financial strategy.

Commercial approaches to core and new business are essential; previous experience of social housing and/or property finance would be helpful, but is not essential. Excellent employment conditions: generous re-location and temporary assistance available. C.V/application as soon as possible; interviews, London or Isle of Wight, December 1992.

For details please contact the Personnel Manager, Medina Housing Association Limited, Lugley House, Lugley Street, Newport, Isle of Wight, PO30 5EL. Tel: (0983) 822811.

Working for equal opportunities.

## Exceptional Item

Outstanding Opportunity For Leading Edge Audit Partner

£ Six figure income

Our client is a leading firm of chartered accountants which has taken a positive lead in developing its multi-faceted business across a broad range of personal and corporate services. The firm has concentrated on a variety of niche services including insolvency, corporate finance, taxation and other transaction related disciplines together with mainstream audit where they have a reputation for providing significant added value.

They enjoyed impressive growth throughout the 1980s and have significantly outperformed their competitors as the development of these premium services continues into the 1990s.

The audit practice enjoys a high profile within the firm and through continued growth now requires an additional Partner to maintain their high standards of service and further develop the practice. An established portfolio of clients exist for the incoming Partner although business development, leadership and management skills remain key prerequisites. The firm has a track record in winning new assignments on a regular and consistent basis.

The successful applicant will currently work within a Big 6 practice or equivalent calibre firm with the ability to communicate across the full range of professional disciplines at the highest level. With first class presentation skills, candidates will be ambitious and have the desire to lead the continued development of the audit practice. Only those who have demonstrated excellence in their career to date will meet the exacting criteria.

This is a truly unique opportunity to combine quality of work with a variety of challenges within a small, controllable environment where the accent is on quality, not quantity. Remuneration package will not be a limiting factor and will be commensurate with experience and ability.

OPPORTUNITIES LIKE THIS ARE RARELY ADVERTISED.

Interested candidates should contact Chris Nelson in the first instance for a confidential discussion on 071 831 2000. Evenings and weekends on 081 785 6191. Alternatively write to him at Michael Page Finance, Page House, 39-41 Parker Street, London WC2B 5LH.

MP

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ALPS

ACCOUNTANCY & LEGAL  
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3 London Wall Buildings, London Wall, London EC2M 5PJ  
Tel: 071-588 3588 Fax: 071-256 8501

A demanding and exacting appointment - scope to become Financial Director within 6 - 8 months

ALPS

FINANCIAL DIRECTOR - DESIGNATE - LLOYD'S

LONDON

£35,000- £45,000

### A LEADING MEMBERS AGENCY IN THE LLOYD'S INSURANCE MARKET

Applications are invited from accountants CA, ACA, ACCA or ACMA aged 35-45 who will have acquired at least six years practical experience in the Lloyd's market or with a Lloyd's panel auditor, and not less than two years heading the financial control function or as the number two. Responsibilities are widely drawn and will cover total financial control of this successful members agency with particular emphasis on installing tight monthly management accounting systems, budgeting, variance analysis, liaison with banks and cash management. An alert, positive and commercial mind is important plus the ability to make a significant contribution to warrant promotion to the Board. Initial salary negotiable £35,000-£45,000 + car, contributory pension, free life insurance, free medical insurance. Applications in strict confidence, under Ref FDD1223/FT to the Managing Director: ALPS

FMS

## FINANCE DIRECTOR IN DYNAMIC ENVIRONMENT

HIGH PROFILE EXPOSURE - BOTTOM LINE IMPACT

Our client is an innovative brand leader, occupying a leading position in this area of Consumer products. The Group has successfully established itself internationally and is set for impressive growth and development in the 1990's. The recent promotion within the UK Retail Division of the Finance Director has generated the need for a fast-track individual to head up the Finance function.

Reporting to the Group Finance Director and the UK Retail Managing Director you will be a key member of the Executive Management team responsible for the long-term planning and development of the retail business as well as day to day operations.

### Responsibilities include:

- Significant contribution to the strategic planning process.
- Liaising with Operations Management to ensure with the effective running of the UK Retail business.
- To add value to this dynamic environment you will bring a qualified Accountant who can clearly demonstrate:
- A strong credible presence and excellent interpersonal and communication skills.
- Ideally previous hands-on experience of a multi-site retail environment, with a high degree of commercial awareness being essential.
- Enhancing accuracy, timeliness and the commercial nature of management information thereby contributing to the bottom line.
- All aspects of financial control and reporting.
- A sound analytical mind, able to isolate and highlight key issues.
- A strong financial and systems background, with new systems implementation experience being an added advantage.

The previous incumbent's high level of motivation and enthusiasm, as well as an impressive level of achievement led to promotion within 15 months. You should therefore possess the potential to likewise progress within the organisation.

To discuss this challenging opportunity further you should write to Karen Wilson BA, ACMA, 5 Bream's Buildings, Chancery Lane, LONDON EC4A 3DY, enclosing a recent CV and a note of current salary.

### APPOINTMENTS WANTED

### PROFIT AND ACTION ORIENTATED

Senior Executive, Managing Director 49, experienced all aspects of business management, cost cutting, restructuring business goal analysis, financial planning. Expert marketer with international experience, commonsense approach, U.S. trained. Seeks senior appointment Subsid or Division. Wide background, food, capital equipment, domestic goods.

Box AJ998, Financial Times,  
One Southwark Bridge,  
London SE1 9HL.

## FINANCIAL CONTROLLER

BSI

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c£35,000

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Milton Keynes

The British Standards Institution, incorporated by Royal Charter, is an internationally recognised force in standardisation, testing and quality assurance.

Today, as the international market-leader in ISO9000 (BS5750) certification, BSI's Quality Assurance Division fulfils a vital role, supporting and assisting with the practical achievement and improvement of quality performance in business worldwide.

The opportunity now exists for a Financial Controller, operating at senior management level, to take responsibility for financial planning and control in this rapidly expanding division, providing complete financial management support and advice to the business.

A qualified Accountant, preferably CIMA, you will have managed a large finance function using computer-based systems in a high-volume transaction environment. Participating actively as a member of the business management team, you will have contributed significantly in the areas of financial analysis, business planning, pricing policy and financial control.

You will be a self confident analytical thinker, capable of combining real initiative and tenacity with strong interpersonal and team leadership skills.

Please apply directly, quoting reference BSI/3, to Charles Macleod at Robert Half, Freepost, Walter House, 418 The Strand, London WC2R 0SR. Telephone 071-836 3543 (24 hours). Alternatively, fax your details on 071-836 4942.

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THE HUMAN FACTOR  
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## DIRECTORS

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But with the best advice job seekers need not be despondent. Between January and September 1992:

- 74% of executives sponsored to InterExec were placed within 6 months
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- The average time to job search was 4.4 months

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London House, 19 Charing Cross Road, London WC2H 0ES.  
Telephone: 071-930 5041. Fax: 071-930 5048

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# CANADA

Sales	Stock	High	Low	Close	Chng	Sales	Stock	High	Low	Close	Chng	Sales	Stock	High	Low	Close	Chng	Sales	Stock	High	Low	Close	Chng
TORONTO																							
3 pm previous day																							
Quotations in cents unless marked \$																							
169900 Alcan Pcs	513 1/2	473 1/2	13 1/2	13 1/2	+	1600 Capital G	55	55	56	56	-	1000 Laurent Bk	51 1/2	10 1/2	10 1/2	10 1/2	+	3000 Silverstar C	5 1/2	1 1/2	1 1/2	1 1/2	+
6700 Atlantic Pcs	6 1/2	6 1/2	6 1/2	6 1/2	+	37000 Constl Svc	52 1/2	39 1/2	39 1/2	39 1/2	+	5000 Laurent G	51 1/2	8 1/2	8 1/2	8 1/2	+	19100 Steelco	300	400	500	500	+
67000 Aln Cde	285	285	285	285	+	1170000 Dominion A	106	162	162	162	+	8200 Lotbay	517 1/4	17 1/4	17 1/4	17 1/4	+	12000 Scapan G	58 1/2	58 1/2	58 1/2	58 1/2	+
67000 Atlantic En	1270	1270	1270	1270	+	15000 Design A	28	28	28	28	+	12000 Mackenzie	51 1/2	5 1/2	5 1/2	5 1/2	+	87000 South Star	510	40	40	40	+
67000 Atlantic En	1270	1270	1270	1270	+	17000 Delfino	30 1/2	5 1/2	5 1/2	5 1/2	+	50000 Mace Bk	51 1/2	6 1/2	6 1/2	6 1/2	+	12000 Scapan G	58 1/2	58 1/2	58 1/2	58 1/2	+
67000 Atlantic En	1270	1270	1270	1270	+	20000 Dimpal Int	400	485	485	485	+	20000 Mace Bk	51 1/2	6 1/2	6 1/2	6 1/2	+	12000 Scapan G	58 1/2	58 1/2	58 1/2	58 1/2	+
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67000 Atlantic En	1270	1270	1270	1270	+	70000 Dimpal Int	400	485	485	485	+	20000 Mace Bk	51 1/2	6 1/2	6 1/2	6 1/2	+	12000 Scapan G	58 1/2	58 1/2	58 1/2	58 1/2	+
67000 Atlantic En	1270	1270	1270	1270	+	10000 Dimpal Int	400	485	485	485	+	20000 Mace Bk	51 1/2	6 1/2	6 1/2	6 1/2	+	12000 Scapan G	58 1/2	58 1/2	58 1/2	58 1/2	+
67000 Atlantic En	1270	1270	1270	1270	+	10000 Dimpal Int	400	485	485	485	+	20000 Mace Bk	51 1/2	6 1/2	6 1/2	6 1/2	+	12000 Scapan G	58 1/2	58 1/2	58 1/2	58 1/2	+
67000 Atlantic En	1270	1270	1270	1270	+	10000 Dimpal Int	400	485	485	485	+	20000 Mace Bk	51 1/2	6 1/2	6 1/2	6 1/2	+	12000 Scapan G	58 1/2	58 1/2	58 1/2	58 1/2	+
67000 Atlantic En	1270	1270	1270	1270	+	10000 Dimpal Int	400	485	485	485	+	20000 Mace Bk	51 1/2	6 1/2	6 1/2	6 1/2	+	12000 Scapan G	58 1/2	58 1/2	58 1/2	58 1/2	+
67000 Atlantic En	1270	1270	1270	1270	+	10000 Dimpal Int	400	485	485	485	+	20000 Mace Bk	51 1/2	6 1/2	6 1/2	6 1/2	+	12000 Scapan G	58 1/2	58 1/2	58 1/2	58 1/2	+
67000 Atlantic En	1270	1270	1270	1270	+	10000 Dimpal Int	400	485	485	485	+	20000 Mace Bk	51 1/2	6 1/2	6 1/2	6 1/2	+	12000 Scapan G	58 1/2	58 1/2	58 1/2	58 1/2	

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					HIGH LOW HIGH LOW										HIGH LOW				
Interstate	3007.57	3193.32	3200.74	3233.03	3411.21	3134.50	3411.21	3134.50	41.22	AMSTERDAM	1901.18	1975.1	1965.1	1951.2	1689.50	1225.0	1957.00	1645.00	
Home Bonds	1262.18	101.92	101.92	101.96	0.89	0.00	0.89	0.00	0.00	357.3	353.9	352.2	345.4	728.00	0.00	728.00	0.00		
Transport	1355.13	1341.23	1338.90	1378.70	1342.01	1322.00	1342.01	1322.00	13.37	ASIA	322.65	318.76	318.76	316.56	458.57	0420	471.41	0310	
Utilities	238.77	271.70	268.91	269.70	225.99	225.99	225.99	225.99	67.00	Bank Asia (CNY200)	783.73	778.22	773.45	763.67	1097.43	0420	1094.78	0210	
					0.94	0.00	0.94	0.00	0.00	BELUX (DOLL)	1135.20	1136.20	1141.42	1125.75	1229.40	0020	1226.96	0210	
					0.00	0.00	0.00	0.00	0.00	BRISBANE	268.28	272.96	272.26	271.36	365.29	1510	359.42	0810	
					0.00	0.00	0.00	0.00	0.00	CHANGHAI	78.94	77.0	77.0	77.0	93.95	0420	94.00	0210	
					0.00	0.00	0.00	0.00	0.00	FRANCE	471.4	471.4	471.4	471.4	535.93	1210	541.00	0210	
					0.00	0.00	0.00	0.00	0.00	GERMANY	722.33	729.77	734.04	727.73	927.00	0410	931.00	0210	
					0.00	0.00	0.00	0.00	0.00	HONGKONG	611.21	611.21	611.21	611.21	725.26	0420	725.26	0210	
					0.00	0.00	0.00	0.00	0.00	INDONESIA	1278.0	1278.0	1278.0	1278.0	1278.0	0420	1278.0	0210	
					0.00	0.00	0.00	0.00	0.00	ITALY	1501.65	1501.65	1501.65	1501.65	1501.65	0420	1501.65	0210	
					0.00	0.00	0.00	0.00	0.00	JAPAN	3655.41	3655.41	3655.41	3655.41	3655.41	0420	3655.41	0210	
					0.00	0.00	0.00	0.00	0.00	KOREA	1099.35	1099.35	1099.35	1099.35	1099.35	0420	1099.35	0210	
					0.00	0.00	0.00	0.00	0.00	NETHERLANDS	657.37	641.77	641.70	642.65	640.35	0510	640.35	0210	
					0.00	0.00	0.00	0.00	0.00	NEW ZEALAND	288.9	288.9	288.9	288.9	288.9	0420	288.9	0210	
					0.00	0.00	0.00	0.00	0.00	PHILIPPINES	599.89	1315.16	1324.23	1309.57	726.95	0410	726.95	0210	
					0.00	0.00	0.00	0.00	0.00	SINGAPORE	371.63	371.63	375.13	371.67	416.91	0410	416.91	0210	
					0.00	0.00	0.00	0.00	0.00	SOUTH AFRICA	766.09	770.0	768.0	775.0	1227.00	0410	1227.00	0210	
					0.00	0.00	0.00	0.00	0.00	SOUTH KOREA	686.09	686.09	686.09	686.09	686.09	0420	686.09	0210	
					0.00	0.00	0.00	0.00	0.00	S									

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